




## 2007 ANNUAL REPORT



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**Unitholder Returns**

		Year Ended December 31, 2007	349 Days Ended December 31, 2006
Distribution per unit		\$0.64	\$0.14
Opening unit price		\$4.95	\$5.00
Closing unit price		\$6.80	\$4.95
Annualized cash distribution per unit - (effective January 2008)	\$0.96		
Closing unit price - April 22, 2008	\$7.54		
Current yield	12.73%		
Number of units outstanding	- December 31, 2007	9,295,010	
	- April 22, 2008	10,846,803	

Temple Real Estate Investment Trust trades on the TSX Venture Exchange under the symbol "TR.UN". The Series A and Series B convertible debentures are listed on the TSX Venture Exchange under the symbol of "TR.DB.A" and "TR.DB.B", respectively.

**REPORT TO UNITHOLDERS**

The investment objective of Temple Real Estate Investment Trust (Temple REIT) is to create a large and diversified portfolio of quality hotel properties and to maximize the investment return to the Unitholders by focusing on an accretive acquisition program and a proactive asset and property management strategy.

Temple REIT commenced operations on October 1, 2006, after acquiring ownership of its first hotel property, the Temple Gardens Mineral Spa Resort Hotel in Moose Jaw, Saskatchewan. The Temple Gardens hotel is a major tourist destination in Saskatchewan, featuring a world famous geo-thermal mineral water pool and located adjacent to a major casino. Historically, the Temple Gardens hotel has achieved occupancy levels and average daily room rates which are significantly higher than national averages. During the three month period from the inception of the Trust on October 1, 2006 to the end of the 2006 fiscal year on December 31, 2006, the Temple Gardens hotel achieved an average occupancy level of 74% and revenue per available room of \$103.40. During the fourth quarter of 2006, the income of the Trust was \$0.090 per unit, or \$0.360 per unit on an annualized basis.

In 2007, Temple REIT acquired six hotel properties, at a total purchase price of \$138 Million. Overall, the entire hotel portfolio achieved an average occupancy level of 76.87% and revenue of \$132.32 per available room while the 2007 income of the Trust increased to \$0.407 per unit. The operating results for the expanded hotel portfolio in 2007 are very favourable, in comparison to the 2006 operating results for the Temple Gardens hotel, and reflect the high level of profitability of the new hotel acquisitions.

The cash flow from the expanded hotel portfolio has also kept pace with the growth in income, allowing for a substantial increase in monthly per unit distributions. During its initial three month operating period in 2006, Temple REIT generated cash from operating activities of \$1,257,575 and paid total distributions of \$328,417, representing a monthly distribution of \$0.047 per unit of \$0.56 on an annualized basis. In 2007, cash from operating activities increased by approximately 644% to \$8,093,478 and Temple REIT paid distributions of \$5,348,041 Million or \$0.64 per unit. The per unit amount reflects an increase in the monthly distribution from \$0.047 per unit in 2006 to \$0.05 per unit, effective January 1, 2007, with an additional increase to \$0.06 per unit, effective September 1, 2007.

The profitability of the expanded hotel portfolio is, in large part, due to the favourable operating results of the five hotel properties which were acquired by Temple REIT in Fort McMurray, Alberta in 2007. A high level of development activity in the oil sands industry has resulted in an economic boom in the Fort McMurray area and created a very strong demand for hotel accommodation. As the high rate of economic growth in Fort McMurray is expected to continue for several years and, as the employees from the oil sands industry represent the primary client base of the Temple REIT hotels, it is anticipated that the positive cash flow results of the Fort McMurray hotel portfolio will be sustained for the foreseeable future.

In summary, during its first full year of operation, Temple REIT has made significant progress in terms of creating a portfolio of quality hotel properties with solid cash flows. During 2007, the property portfolio of the Trust increased from one hotel with a purchase price of \$26.1 Million to seven hotels with a combined purchase price of \$164.1 Million, while distributions, on an annualized basis, increased from \$0.60 per unit to \$0.72 per unit. In January 2008, the distribution of Temple REIT was further increased to \$0.08 per month or \$0.96 annually.

In 2008, the focus of Temple REIT will be to surpass the operating results for 2007 by acquiring additional accretive properties and enhancing the profitability of the existing portfolio. As a starting point, Temple REIT increased its hotel portfolio in Fort McMurray to six properties in January 2008 by acquiring the 83-room Advantage West Inn and Suites at a purchase price of \$19.4 Million. In March 2008, the Trust successfully completed a \$30 Million public offering of convertible debentures, thereby creating a source of investment capital for the funding of additional hotel acquisitions this year.

We look forward to a very positive year of growth in 2008. The Board of Trustees and the management team of Shelter Canadian Properties Limited remain fully committed to maximizing the investment returns to the Unitholders and to the long-term success of the Trust.

#### TEMPLE REAL ESTATE INVESTMENT TRUST



ARNI C. THORSTEINSON, CFA  
President & Chief Executive Officer  
April 22, 2008

## 2007 HIGHLIGHTS

### Acquisition and Development

- Acquired six hotel properties during 2007, comprised of 563 suites, at a total purchase price \$140.2 Million.
- Year end property portfolio consists of seven hotels, comprised of 742 suites, with an estimated current value of \$195 Million as of December 31, 2007.

### Financial

- Achieved operating income of \$17.02 Million, or \$2.12 per unit based on the weighted average number of units, reflecting an overall profit margin of 49.47%.
- Achieved net income of \$3,267,422 or \$0.407 per unit. Net income includes non-recurring financing expenses of approximately \$1.4 Million or \$0.174 per unit.
- Generated FFO of \$6.58 Million (Distributions were 81.25% of FFO).
- Generated distributable income of \$6.16 Million (Distributions were 86.81% of DI).
- Improved occupancy to 76.9%.
- Increased ADR to \$172.14.
- RevPar increased to \$132.32.

### Capital Structure

- Raised \$48.16 Million of investment capital in the first quarter of 2007 from the public offering of \$32.48 Million of trust units and \$15.68 Million of Series A convertible debentures.
- Weighted average interest rate on the aggregate mortgage loan balance of 6.45% as of December 31, 2007.
- Ratio of mortgage loan debt to estimated current value is 60% at December 31, 2007.

### Ongoing Financing and Investment Activities

- Acquired an 83-room hotel property in Fort McMurray, Alberta in January 2008 at a price of \$19.4 Million.
- On April 8, 2008, Temple REIT completed a \$30 Million public offering of Series B Convertible Debentures, bearing interest at a rate of 8.5% for a five year term.

## **Profile of Hotel Properties**

### **Temple Gardens Mineral Spa Resort Hotel**

The Temple Gardens Mineral Spa Resort Hotel was acquired by Temple REIT on October 1, 2006. The hotel is located in Moose Jaw, Saskatchewan and consists of a 179 guest rooms. The hotel also features a restaurant, café, banquet and meeting rooms, gift shop, fitness room, spa treatment centre and geo-thermal mineral water pool. The spa resort is most well known for its mineral-rich, geo-thermal therapeutic waters.

### **Chateau Nova**

The Chateau Nova hotel property was acquired by Temple REIT on March 22, 2007. The property is located in Yellowknife, Northwest Territories and consists of a four-storey, 60-room hotel complex known as Chateau Nova, and a three-storey, 20-room annex, known as Chateau Nova Suites. The property offers a full range of services, including a full service restaurant, lounge, room service, meeting and conference rooms, business centre, fitness centre and spa services. Chateau Nova and Chateau Nova Suites are located across from each other on Franklin Avenue, the main street of downtown Yellowknife.

### **Clearwater Suites**

The Clearwater Suites hotel complex was acquired by Temple REIT on March 30, 2007. Clearwater Suites is a four-storey, 150-room extended stay hotel complex, located in Fort McMurray, Alberta, comprised of 117 one-bedroom units, 11 two-bedroom units and 22 studio units. The property is operated as an extended stay lodging complex to accommodate oil sands and major project staff who stay in Fort McMurray for periods of one week to several months. The property also includes a 75-stall underground parkade.

### **Merit Inn & Suites**

The Merit Inn and Suites was acquired by Temple REIT on April 30, 2007. The five-storey hotel opened in April 2006, is located in Fort McMurray, Alberta and contains 75 rooms. The hotel contains a business centre, two meeting rooms totaling approximately 850 square feet and fitness facilities. The hotel also contains provision for a restaurant/coffee shop, which is not fully developed and is currently used to serve complimentary continental breakfast.

### **Merit Hotel**

The Merit Hotel was acquired by Temple REIT on April 30, 2007. The four-storey, full service hotel opened in 2003, is located in Fort McMurray, Alberta and contains 92 rooms. The hotel offers a restaurant and lounge and also includes a business centre, two meeting rooms totaling approximately 2,500 square feet, indoor pool and whirlpool and fitness facilities.

### **Nomad Hotel**

The Nomad Hotel was acquired by Temple REIT on April 30, 2007. The seven-storey, full-service hotel opened in 1988, is located in Fort McMurray, Alberta and contains 139 rooms. The hotel offers a Keg Restaurant, cafe and pub and also includes approximately 1,200 square feet of meeting space, business centre, indoor pool and fitness facilities.

### **Nomad Suites**

The Nomad Suites was acquired by Temple REIT on April 30, 2007. The four-storey, extended stay hotel opened in 2000, is located in Fort McMurray, Alberta and contains 27 rooms. The hotel also includes a small area for serving complimentary breakfast. The hotel's front desk and management operations are handled through the Nomad Hotel.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Forward-Looking Statements

Management's Discussion and Analysis ("MD&A") of Temple Real Estate Investment Trust ("Temple REIT" or the "Trust") should be read in conjunction with the financial statements of Temple REIT for the year ended December 31, 2007 and with reference to the quarterly reports for 2007.

Certain statements contained in this MD&A and in certain documents incorporated by reference herein are "forward-looking statements" that reflect the expectations of management regarding the future growth, results of operations, performance, prospects and opportunities of Temple REIT. Readers are cautioned not to place undue reliance on forward-looking information. All statements other than statements of historical fact contained or incorporated by reference herein are forward-looking statements including, without limitation, statements regarding the timing and amount of distributions and the future financial position, business strategy, potential acquisitions, plans and objectives of Temple REIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors, as discussed herein, could cause actual results to differ materially from the results discussed in forward-looking statements. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, Temple REIT cannot assure investors that actual results will be consistent with these forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. Forward-looking statements are made as of the date hereof, or such other date specified in such statements, and neither Temple REIT nor any other person assumes any obligation to update or revise such forward-looking statements to reflect new information, events or circumstances, except as expressly required by applicable securities law.

### Purchase Price/Acquisition Cost

Unless otherwise noted, all references to "purchase price(s)" or "acquisition cost(s)", as disclosed in this report, exclude closing costs and other adjustments on closing.

### Estimated Current Value

In this report, references are made to the estimated current value of the property portfolio of Temple REIT, as of December 31, 2007. Management assumed that the estimated current value of the properties was equal to the appraised value pursuant to 2006 and 2007 appraisal reports prepared by independent appraisers.

The appraised value of properties contained in appraisals prepared by independent appraisers are estimates only, are made effective as at the date set forth in the appraisal and are subject to a number of assumptions, qualifications and limiting conditions. There can be no assurance that appraised value of a property is an accurate reflection of the value of a property as at the effective date set forth in the appraisal or on any other date. In addition, there can be no assurance that the valuation method or the capitalization rate(s) used in appraising a property (and used by management of Temple REIT in estimating the current value of the portfolio) was appropriate for such property as at the effective date set forth in the appraisal or on any other date.

## Financial and Operating Statistics

	Year Ended December 31		Three Months Ended December 31		Three Months Ended September 30	
	2007	2006	2007	2007	2007	2007
<b>DISTRIBUTIONS</b>						
Amount - total	\$ 5,348,041	\$ 328,417	\$ 1,630,406	\$ 1,423,975		
- per unit	\$0.64	\$0.14	\$0.18	\$0.16		
<b>BALANCE SHEET</b>						
Total Assets	\$ 184,615,851	\$ 32,961,791	\$ 184,615,851	\$ 182,231,410		
Total Financial Liabilities	\$ 131,212,485	\$ 18,995,485	\$ 131,212,485	\$ 130,844,908		
<b>KEY PERFORMANCE INDICATORS</b>						
<b>Operations:</b>						
Occupancy *	76.87%	74.04%	74.78%	75.73%		
ADR *	\$172.14	\$139.66	\$173.17	\$175.87		
RevPar *	\$132.32	\$103.40	\$129.50	\$131.59		
Operating profit margin *	49.47%	27.57%	49.91%	53.66%		
<b>Operating results:</b>						
Total revenue	\$ 34,406,559	\$ 2,985,282	\$ 10,719,999	\$ 10,885,385		
Operating income	\$ 17,018,646	\$ 823,174	\$ 5,350,132	\$ 5,840,247		
Net income	\$ 3,267,422	\$ 109,377	\$ 1,095,819	\$ 543,818		
<b>Cash flows:</b>						
Distributable income	\$ 6,160,805	\$ 349,346	\$ 2,022,674	\$ 1,550,857		
Funds from operations	\$ 6,583,385	\$ 347,378	\$ 2,051,827	\$ 1,685,500		
<b>Financing:</b>						
Weighted average interest rate of long-term debt *	6.45%	6.15%	6.45%	6.43%		
<b>PER UNIT AMOUNTS</b>						
	<u>Basic</u>	<u>Diluted</u>	<u>Basic</u>	<u>Diluted</u>	<u>Basic</u>	<u>Diluted</u>
Net income	\$0.407	\$0.404	\$0.097	\$0.096	\$0.122	\$0.121
Distributable income *	\$0.767	\$0.762	\$0.311	\$0.307	\$0.225	\$0.224
Funds from operations *	\$0.820	\$0.815	\$0.309	\$0.305	\$0.229	\$0.227
					\$0.190	\$0.189

### Non-GAAP Measurements

Items marked with an asterisk represent measurements which are not calculated or presented in accordance with GAAP or which do not have a standardized meaning as prescribed by GAAP. The non-GAAP measurements may not be comparable to the measurements which are provided by other entities and should not be used as an alternative to the measurements which are determined in accordance with GAAP for purposes of assessing the performance of Temple REIT. Temple REIT believes, however, that the non-GAAP measurements are useful in supplementing the reader's understanding of the performance of the Trust.

FFO is a measure of cash flow that is not defined under Canadian GAAP, and accordingly, may not be comparable to similar measures used by other issuers. Funds from operations (FFO) is defined as net income in accordance with Canadian GAAP, subject to certain adjustments as set out in the Declaration of Trust, including adding back amortization, future income taxes (recovery) expense and unit based compensation that is included in the computation of net income, and making any other adjustments determined by the trustees of the REIT in their discretion.

Details regarding the calculation of the non-GAAP measurements and a reconciliation to GAAP measurements, where applicable, are provided in the report.

The headings in tables contained herein that are described as the "Year Ended December 31, 2006" refer to a 349 day period then ended.

## OVERVIEW OF TRUST OPERATIONS

### Creation of Temple Real Estate Investment Trust ("Temple REIT")

Prior to its re-organization as a real estate investment trust, Temple REIT existed as a capital pool company known as "HPVC Inc.". HPVC Inc. was incorporated under the Canada Business Corporations Act on August 5, 2005, completed its initial public offering on February 22, 2006 and became a publicly listed company on the TSX Venture Exchange on February 27, 2006.

On October 1, 2006, HPVC Inc. completed a Qualifying Transaction whereby, pursuant to a Plan of Arrangement, HPVC Inc. was reorganized into a real estate investment trust, under the name of "Temple Real Estate Investment Trust". In accordance with the Plan of Arrangement, the common shares of HPVC Inc. were exchanged for trust units of Temple REIT on a ten to one basis and all of the assets and liabilities of HPVC Inc. were transferred to the Trust.

### Overall Investment Objectives and Strategy

#### Primary Objectives

Temple REIT is an open-ended real estate investment trust with a long-term focus on owning and acquiring a geographically and sectorally diversified portfolio of hotel properties and assets in primary and secondary markets across Canada. The primary objectives of Temple REIT are to generate stable and growing cash distributions on a tax-efficient basis, enhance the value of Temple REIT's assets and maximize long-term unit value through the active management of its assets, and expand the asset base and increase distributable income through an accretive acquisition program.

#### Growth

The general strategy of Temple REIT for external growth is to pursue the acquisition of hotel properties and assets in markets across Canada and, possibly in the United States, based on an investment criteria which focuses on return of equity, security of cash flow and potential for capital appreciation. The target capitalization rate for hotel acquisitions is between 9% and 13%.

The assessment of the capital appreciation potential of targeted properties includes an evaluation of market conditions, an analysis of the available opportunities for increasing cash flows by implementing more efficient operating systems, and an examination of the potential redevelopment or expansion opportunities for the property.

The overall investment strategy of Temple REIT will also encompass the acquisition of hotels in regional clusters and of similar asset sizes in order to create economies of scale. Temple REIT will also focus on acquiring hotels in solid physical condition with minimal initial capital expenditure requirements.

#### Financing

The overall strategy of Temple REIT is to raise investment capital through the issuance of trust units or convertible debentures. In general, new property acquisitions will be funded by arranging new mortgage financing or assuming existing mortgage financing, with the remaining equity portion to be funded from the reserves of investment capital. The equity portion of new property acquisitions may also be partially funded by the exchange of trust units.

The strategy of Temple REIT is to efficiently utilize and manage leverage, targeting mortgage debt in the range of 65% to 75% of appraised value to maximize return on equity while maintaining cash flow stability. Temple REIT will pursue the upward refinancing of under-leveraged properties or the subsequent arrangement of mortgage financing for properties which are initially acquired on a 100% cash basis.

Temple REIT will also utilize acquisition lines of credit, bridge financing and other short-term financing facilities as a source of interim investment capital, as investment opportunities arise, pending the replenishment of capital reserves from additional trust unit or convertible debenture offerings.

## Management

Temple REIT has assembled a highly skilled and experienced management team in order to assist the Trust in achieving its business objectives. The management team and Trustees of Temple REIT have extensive experience in all facets of the hotel industry and have developed key relationships with vendors across North America which should enable Temple REIT to gain access to a significant acquisition pipeline on an unlisted basis.

Asset management services are provided to Temple REIT by Shelter Canadian Properties Limited. Shelter Canadian has been one of Canada's leading real estate development and property management companies for over 35 years and brings a wealth of real estate investment, development and asset management experience to Temple REIT. Please refer to the section of this report entitled "Related Party Transactions" for details of the remuneration of Shelter Canadian.

The hotel properties of Temple REIT will be primarily, but not exclusively, operated and managed by Atlific Hotels and Resorts ("Atlific"). Atlific currently manages a portfolio of approximately 40 properties across Canada, including hotels with the Marriott, Best Western, Comfort Inn and Holiday Inn brands. Atlific is an affiliate of Ocean Properties Ltd., one of the largest privately-owned hotel management companies in North America. Combined, Atlific and Ocean Properties have over 80 years of experience in hotel management and manage a portfolio of 100 properties. Details of the terms of the Atlific management agreements for the hotels in the Temple REIT portfolio are provided in the section of this report entitled "Hotel Management".

## Property Portfolio

### Portfolio Summary - December 31, 2007

As disclosed in the following chart, the real estate portfolio of Temple REIT consists of seven hotel properties as of December 31, 2007. Temple Gardens is the only hotel which was owned by Temple REIT prior to 2007.

#### Property Portfolio - December 31, 2007

Property	Location	Purchase Price	Acquisition Date	Rooms/Suites
<b>Alberta</b>				
Clearwater Suite Hotel	Fort McMurray	\$ 56,500,000	March 2007	150
Merit Hotel	Fort McMurray	16,000,000	April 2007	92
Merit Inn & Suites	Fort McMurray	18,800,000	April 2007	75
Nomad Inn	Fort McMurray	23,700,000	April 2007	139
Nomad Suites	Fort McMurray	10,000,000	April 2007	27
<b>Northwest Territories</b>				
Chateau Nova	Yellowknife	13,000,000	March 2007	80
<b>Saskatchewan</b>				
Temple Gardens Mineral Spa Resort Hotel (1)	Moose Jaw	<u>26,102,670</u>	October 2006	<u>179</u>
<b>Total</b>		<u>\$ 164,102,670</u>		<u>742</u>

#### Note:

- (1) Ownership of the Temple Gardens hotel is held by Temple Gardens Mineral Spa Inc. (TGMS). All of the common shares of TGMS were acquired by Temple REIT at the inception of the Trust for cash consideration of \$12,248,408, by issuing 276,771 trust units at a deemed value of \$1,383,855 and by the assumption of long-term debt of \$12,470,407, representing a total acquisition cost of \$26,102,670.

The operations of TGMS also encompass a co-ownership agreement in regard to a 23,400 square foot casino complex which is located directly across from the Temple Gardens hotel. The casino complex, which is known as "Casino Moose Jaw", is subject to a 25-year lease under which the tenant is responsible for all costs associated with the leased premises, including structural or foundation repairs or replacement. TGMS has a 50% equity interest in the co-ownership agreement.

## Property Acquisitions - Subsequent to December 31, 2007

On January 31, 2008, Temple REIT acquired the Advantage West Inn and Suites, a four-storey hotel property located in Fort McMurray, Alberta. The hotel, which opened in July 2004, contains 83 rooms, meeting facilities, a sports bar, business centre, fitness centre and continental breakfast area. The purchase price of \$19.4 Million was financed with a first mortgage loan in the amount of \$11.64 Million, with an interest rate of 6.285% for a five year term, a second mortgage loan in the amount of \$4 Million with an interest rate of 11.25% with the balance paid in cash. The second mortgage loan was reduced to \$200,000 on April 10, 2008.

## RESULTS OF OPERATIONS

### Summary of Quarterly Results

#### Quarterly Analysis (1) (2) (3)

	2007			
	Q4	Q3	Q2	Q1
Total revenue	\$ 10,719,999	\$ 10,885,385	\$ 9,522,466	\$ 3,278,709
Operating income	\$ 5,350,132	\$ 5,840,247	\$ 4,761,400	\$ 1,066,867
Net income	\$ 1,095,819	\$ 543,818	\$ 1,421,241	\$ 206,544
<b>PER UNIT</b>				
Operating income				
- Basic	\$ 0.596	\$ 0.659	\$ 0.538	\$ 0.200
- Diluted	\$ 0.593	\$ 0.656	\$ 0.410	\$ 0.198
Net income				
- Basic	\$ 0.122	\$ 0.061	\$ 0.161	\$ 0.039
- Diluted	\$ 0.121	\$ 0.061	\$ 0.157	\$ 0.038
<b>2006</b>				
	Q4	Q3	Q2	Q1
Total revenue	\$ 2,943,520	\$ 17,558	\$ 17,660	\$ 6,544
Operating income	\$ 823,174	\$ -	\$ -	\$ -
Net income (loss)	\$ 100,924	\$ (1,321)	\$ 15,458	\$ (5,684)
<b>PER UNIT</b>				
Operating income				
- Basic	\$ 0.732	\$ -	\$ -	\$ -
- Diluted	\$ 0.723	\$ -	\$ -	\$ -
Net income (loss)				
- Basic	\$ 0.090	\$ (0.002)	\$ 0.020	\$ (0.012)
- Diluted	\$ 0.089	\$ (0.002)	\$ 0.019	\$ (0.012)

#### Notes:

1. The inception date of Temple REIT as a publicly-listed company on the TSX Venture Exchange occurred on October 1, 2006, pursuant to a Plan of Arrangement between Temple REIT and HPVC Inc., whereby Temple REIT acquired all of the common shares of HPVC Inc. in exchange for Temple REIT trust units, on a ten to one basis. HPVC Inc. was incorporated on August 5, 2005 and commenced active operations on January 17, 2006.
2. On October 1, 2006, upon the completion of the Plan of Arrangement, which encompassed the transfer of all of the assets and liabilities of HPVC Inc. to Temple REIT and the acquisition of the shares of TGMS, the Trust assumed control of the operations of the Temple Gardens hotel.
3. The operating results for Temple REIT, prior to October 1, 2006, reflect the operations of HPVC Inc. The operating results for the first quarter of 2006 reflect the operations of HPVC Inc. for the period from January 17, 2006 to March 31, 2006. During the period from January 17, 2006 to September 30, 2006, HPVC Inc. did not have any revenue or expenses, aside from interest income of \$41,762 and professional and other fees of \$33,309. For comparative purposes, the Per Unit amounts prior to October 1, 2006 have been adjusted to reflect the exchange of ten common shares of HPVC Inc. for one unit.

## Comparative Analysis

A summary of operating results by quarter, commencing in the first quarter of 2006, is provided in the chart above. As disclosed in the notes to the chart, Temple REIT did not assume control of the operations of the Temple Gardens hotel until October 1, 2006. Prior to October 1, 2006, Temple REIT existed as a capital pool company known as "HPVC Inc."

A brief analysis of the 2007 annual results, compared to the 2006 annual results, is provided in the following section of this report. Given the limited transactions of HPVC Inc. prior to October 1, 2006, it is not meaningful to undertake a detailed comparison of operating results for 2007 and 2006. Accordingly, this report focuses on an analysis of the operating results for the fourth quarter of 2007, compared to the third quarter of 2007. A brief analysis of the 2007 results, compared to 2006, is provided below.

## Comparison to 2006 Results

### Analysis of Net Income - 2007 vs. 2006

	Year Ended December 31		
	2007	2006	Increase (Decrease)
Hotel revenue			
Room	\$ 27,723,728	\$ 1,702,826	\$ 26,020,902
Other	<u>4,972,831</u>	<u>1,083,183</u>	<u>3,889,648</u>
Total hotel revenue	32,696,559	2,786,009	29,910,550
Interest and other income	<u>1,710,000</u>	<u>199,273</u>	<u>1,510,727</u>
Total revenue	34,406,559	2,985,282	31,421,277
Operating expenses	<u>17,387,913</u>	<u>2,162,108</u>	<u>15,225,805</u>
Operating income	17,018,646	823,174	16,195,472
Finance expense	9,272,047	291,033	8,981,014
Trust expense	760,500	146,702	613,798
Amortization	3,216,254	264,298	2,951,956
Provision for taxes	<u>502,423</u>	<u>11,764</u>	<u>490,659</u>
Net income	<u>\$ 3,267,422</u>	<u>\$ 109,377</u>	<u>\$ 3,158,045</u>

## Overall Results

Temple REIT completed 2007 with a net income of \$3,267,422, compared to \$109,377 during 2006. The increase in net income reflects the growth in the property portfolio of Temple REIT, from one hotel in 2006 to seven hotels as of December 31, 2007. In addition, the income results for 2006 only encompass a three month period of hotel operations, as the Trust did not assume control of its first property, the Temple Gardens hotel, until October 1, 2006.

## Operating Income

For the three month period in 2006, the operating income of the Temple Gardens hotel was \$823,174. In 2007, the Trust generated operating income of \$17,018,646, of which \$3,696,113 is attributable to the Temple Gardens hotel, representing a quarterly average of \$924,028. The increase from the 2006 results, compared to the quarterly average in 2007, reflects an increase in the RevPar of the hotel.

## Financing Expense

For the three month period in 2006, financing expenses associated directly with the long-term debt of the Temple Gardens hotel were \$291,033, compared to \$1,436,287 in fiscal 2007, representing a quarterly average of \$359,072. The increase in the quarterly average in 2007, compared to the 2006 results, mainly reflects an increase in the mortgage loan debt ratio. In 2006, the ratio of mortgage loan debt to the appraised value of the Temple Gardens hotel was 57.57% (ratio to acquisition costs was 72.78%), compared to 59.46% (ratio to acquisition costs was 90.22%) as of December 31, 2007. The increase in the debt ratio for the Temple Gardens hotel reflects the upward refinancing of the long-term debt of the hotel by \$5,140,000 in July 2007. For the entire portfolio, the ratio of mortgage loan debt to the appraised value was 60.23% (ratio to acquisition costs was 73.96%) as of December 31, 2007.

## Comparison to Preceding Quarter

### Analysis of Net Income - Q4 vs Q3

	Three Months Ended		
	December 31, 2007	September 30, 2007	Increase (Decrease)
Hotel revenue			
Room	\$ 8,892,648	\$ 9,282,517	\$ (389,869)
Other	<u>1,328,811</u>	<u>1,222,716</u>	<u>106,095</u>
Total hotel revenue	10,221,459	10,505,233	(283,774)
Interest and other income	<u>498,540</u>	<u>380,152</u>	<u>118,388</u>
Total revenue	10,719,999	10,885,385	(165,386)
Operating expenses	<u>5,369,867</u>	<u>5,045,138</u>	<u>324,729</u>
Operating income	5,350,132	5,840,247	(490,115)
Finance expense	2,733,088	3,884,210	(1,151,122)
Trust expense	381,197	70,537	310,660
Amortization	1,063,359	1,069,481	(6,122)
Provision for taxes	<u>76,669</u>	<u>272,201</u>	<u>(195,532)</u>
Net income	<u>\$ 1,095,819</u>	<u>\$ 543,818</u>	<u>\$ 552,001</u>

## Overall Results

Temple REIT completed the fourth quarter of 2007 with net income of \$1,095,819, compared to net income of \$543,818 in the third quarter of 2007. As disclosed in the preceding chart, the increase in net income reflects a significant decrease in financing expense and provision for income taxes, partially offset by an increase in trust expenses.

## Revenue

### Total Revenue

During the fourth quarter of 2007, Temple REIT generated total revenue of \$10,719,999, comprised of \$10,221,459 in hotel revenue and \$498,540 in interest and other income. Approximately 87.0% of the hotel revenue is room revenue.

### Room Revenue

#### Room Revenue Analysis - Entire Portfolio

	Three Months Ended December 31, 2007	Three Months Ended September 30, 2007
Occupancy level	74.78 %	75.73 %
Average daily room rate	\$ 173.17	\$ 175.87
RevPar	\$ 129.50	\$ 131.59

RevPar is a non-GAAP measurement which is commonly used within the hotel industry to evaluate hotel operations and is generally considered to be the leading indicator of operating performance. RevPar is calculated by multiplying the average daily room rate ("ADR") by the occupancy level. RevPar does not include revenues from food and beverage operations or from other hotel service.

The occupancy level is calculated by dividing the number of rooms available during the reporting period into the number of rooms actually rented. ADR is calculated by dividing total room revenue by the number of rooms rented.

For the three months ended December 31, 2007, Temple REIT generated room revenue of \$8,892,648, compared to \$9,282,517 during the third quarter of 2007. The decrease in room revenue reflects a slight decrease in the average room rate and occupancy level of the hotel portfolio.

As disclosed in the chart above, the average room rate decreased by \$2.70 during the fourth quarter of 2007, compared to the third quarter, while the average occupancy level decreased from approximately 76% to approximately 75%. Overall, RevPar decreased to \$129.50, compared to \$131.59 in the third quarter of 2007.

The first 2 months of the quarter were very strong with occupancy at 84.54% and RevPar averaging \$146.13. As is generally the case in the industry, the final 2 weeks of December were very slow and occupancy and RevPar were 55.27% and \$96.25 respectively for the month. As a result both occupancy and RevPar decreased slightly in the fourth quarter compared to the third.

### Other Hotel Revenue

Other hotel revenue includes food and beverage revenue of \$736,109, spa revenue of \$466,855 and parking and gift shop revenue of \$125,847.

During the fourth quarter of 2007, "Other Hotel Revenue" increased by \$106,095 or 8.68%, compared to the third quarter of 2007. In general, the increase reflects a increase in food and beverage revenues at Temple Gardens. In total, Temple Gardens accounts for 86.6% of "Other Hotel Revenue" for the fourth quarter of 2007. The remaining amount is mainly attributable to the Clearwater Hotel.

### Interest and Other Income

Interest and other income consists of interest income on the excess cash reserves of the Trust, interest income on a mortgage loan receivable, interest income on the operating cash balances of the hotel properties and miscellaneous hotel income.

For the three months ended December 31, 2007, "Interest and Other Income" increased by \$118,388, compared to the third quarter of 2007. The increase is mainly due to an increase in interest income on the overall cash balance of the Trust, as well as interest income relating to the defeasance assets.

## Hotel Operating Costs

Hotel operating costs include all costs related to the operation of the hotel properties. Expenses related to the overall administration and management of the Trust, including asset management, legal, audit and securities commission fees are classified as "Trust" expenses. An analysis of hotel operating costs is provided below.

### Analysis of Hotel Costs

	Three Months Ended		
	December 31, 2007	September 30, 2007	Increase (Decrease)
Cost of sales and administrative (1)	\$ 3,003,960	\$ 2,713,189	\$ 290,771
Marketing, utilities and maintenance	1,646,694	1,394,978	251,716
Rent, property taxes, insurance and fees (2)	719,213	936,971	(217,758)
Total	<u>\$ 5,369,867</u>	<u>\$ 5,045,138</u>	<u>\$ 324,729</u>

### Notes:

- (1) Cost of Sales consists primarily of variable costs which are directly associated with revenues generated from hotel sales. Cost of Sales also includes bad debt expense. Administrative costs include employees wages and administrative office expenses.
- (2) Fees include property management fees.

As disclosed in the chart above, "Operating Expenses" increased by \$324,729 or 6.44%, for the three months ended December 31, 2007, compared to the third quarter of 2007. The increase in each major cost category is mainly due to the following factors:

- Cost of sales and administrative expenses increased by \$290,771, mainly due to an increase in wages as well as an increase in bad debts.
- Marketing, utilities and maintenance expenses increased by \$251,756, mainly due to an increase in advertising and an increase in the utilities for the fourth quarter.
- Rent, property tax, insurance and fees decreased by \$217,758, mainly due to a decrease in professional fees, as well as a decrease in property taxes for the fourth quarter.

## Operating Profit Margin

The operating profit margin for the entire portfolio of hotel properties was 50% in the fourth quarter of 2007, compared to 54% in the third quarter of 2007. The profit margin is calculated by dividing operating income by total revenues.

The decrease in the operating profit margin reflects a slight decrease in revenues, along with an increase in hotel operating costs.

## Financing Expense

The total financing expense for the fourth quarter of 2007 of \$2,733,088 consists of financing expense of \$2,102,607 in regard to the mortgages and loans which are secured by the assets or revenues of the hotel properties, financing expense of \$379,997 in regard to the Series A convertible debenture offering which was completed on February 15, 2007 and amortization of transactions costs of \$250,484.

In comparison to the third quarter of 2007, financing expense decreased by \$1,151,122. The decrease is almost entirely attributable to the mortgage loan component of financing expense and mainly reflects the non-recurring charges of approximately \$1.4 Million which were incurred during the third quarter in regard to the premium interest charges and extension fees for the extension of the "wrap-around" first mortgage loan for the Merit and Nomad properties.

## Trust Expense

The trust expense of Temple REIT consists of asset management fees, professional and legal fees, unit-based compensation expense as well as fees charged by the TSX Venture Exchange.

During the fourth quarter of 2007, Trust expense increased by \$310,660 or 540%, compared to the third quarter of 2007. The increase mainly reflects an substantial increase in professional and audit fees and fees associated with properties Temple REIT has not yet acquired.

## Amortization

In comparison to the third quarter of 2007, amortization charges decreased by \$6,122 during the fourth quarter of the year.

## ANALYSIS OF CASH FLOWS

### Operating

#### Cash from Operating Activities

##### Analysis of Cash from Operating Activities

	Year Ended December 31		Three Months Ended	
	2007	2006	December 31, 2007	September 30, 2007
Cash from operating activities	\$ 8,093,477	\$ 1,257,575	\$ 4,273,615	\$ 645,393
Changes in non-cash operating activities	(728,443)	(908,229)	(1,875,741)	1,286,453
	<u>\$ 7,365,034</u>	<u>\$ 349,346</u>	<u>\$ 2,397,874</u>	<u>\$ 1,931,846</u>

During the fourth quarter of 2007, Temple REIT generated cash from operating activities of \$4,273,615. After excluding changes in non-cash operating items of \$1,875,741, the cash flow from operating activities for the fourth quarter of 2007 was \$2,397,874.

In comparison to the third quarter of 2007, cash flow from operating activities, including changes in non-cash operating items, increased by \$466,028 or 24.13%. The increase is mainly due to a reduction in financing expense and reflects the fact that the financing expense was comparatively high during the third quarter of 2007 due to the non-recurring financing expenses which were incurred in regard to the extension of the interim loan for the Merit/Nomad hotels.

For the year ended December 31, 2007, Temple REIT generated cash from operating activities of \$7,365,035, after excluding the change in non-cash operating items.

#### Distributable Income and Funds From Operations ("FFO")

Distributable income and FFO are non-GAAP measurements of cash flows which are commonly used by real estate investment trusts to facilitate the determination of distributions to the Unitholders. On July 6, 2007, the National Policy 41-201 "Income Trusts and Other Indirect Offerings" was issued defining the calculation of distributable income. Prior to this quarter, distributable income and FFO had been calculated by adding back or deducting the changes in non-cash operating income items. Pursuant to the guidelines of the new policy, distributable income and FFO no longer includes this calculation. In addition, a reserve for replacement of furniture, fixtures and equipment and capital improvements ("FF&E Reserve") of \$1,204,230 has been established representing 3.5% of gross revenue for the year. The distributable income and FFO has been restated for the year ended 2006 and the third quarter 2007 as a result of these changes. Distributable income and FFO for Temple REIT is calculated in the chart set out on the following page.

On a per unit basis, distributable income and FFO are \$0.225 per unit and \$0.229 per unit respectively for the three months ended December 31, 2007, compared to \$0.175 per unit and \$0.190 respectively for the three months ended September 30, 2007. For the year ended December 31, 2007, distributable income and FFO are \$0.767 per unit and \$0.820 per unit. Please refer to the following chart.

#### **Funds from operations/Distributable Income**

	Year Ended December 31		Three Months Ended	
	2007	2006	December 31, 2007	September 30, 2007
Net income	\$ 3,267,422	\$ 109,377	\$ 1,095,819	\$ 543,818
Add/Deduct:				
Future income taxes	56,403	(24,329)	(107,351)	72,201
Unit-based compensation	43,306	-	-	-
Amortization	3,216,254	262,330	1,063,359	1,069,481
Funds from operations	\$ 6,583,385	\$ 347,378	\$ 2,051,827	\$ 1,685,500
Amortization of transaction costs	470,740	1,968	250,484	108,444
Accretion on debt component of convertible debentures	310,909	-	95,563	137,902
Reserve for replacement of furniture, fixtures and equipment and capital improvements ("FF&E Reserve")	(1,204,230)	-	(375,200)	(380,989)
Distributable income	\$ 6,160,804	\$ 349,346	\$ 2,022,674	\$ 1,550,857
Excess (shortfall) of distributable income over cash distributions paid	\$ 812,763	\$ 20,929	\$ (144,909)	\$ 221,613
Excess (shortfall) of net income over cash distributions paid	\$ (2,080,619)	\$ (219,040)	\$ (1,071,764)	\$ (785,426)
Funds from operation - Per unit				
- basic	\$0.820	\$0.309	\$0.229	\$0.190
- diluted	\$0.815	\$0.305	\$0.227	\$0.189
Distributable income - Per unit				
- basic	\$0.767	\$0.311	\$0.225	\$0.175
- diluted	\$0.762	\$0.307	\$0.224	\$0.174

## **Financing Activities**

### **Summary**

During the year ended December 31, 2007, the net cash flow provided by financing activities amounted to \$145,300,718. Financing activities consisted primarily of mortgage loan transactions, issuance of units and convertible debentures, and distributions to the Unitholders.

### **Mortgage Loan Transactions**

#### **Mortgage Loan Proceeds**

During the year ended December 31, 2007, mortgage loan proceeds amounted to \$148.1 Million, consisting of the following:

- a \$6.2 Million first mortgage loan in regard to the acquisition of Chateau Nova in March 2007. The first mortgage loan matured on November 30, 2007 and was increased to \$8 Million as of December 1, 2007;
- \$46.0 Million of mortgage loans in regard to the acquisition of Clearwater Suites in March 2007;
- a \$44.5 Million interim first mortgage loan in regard to the acquisition of the Merit and Nomad hotel properties in April 2007. The interim first mortgage loan matured on July 15, 2007 and was extended to September 7, 2007;

- a \$44.5 Million first mortgage loan from CDPQ Mortgage Corporation. The loan proceeds were used to repay the interim first mortgage loan on the Merit and Nomad hotel properties; and
- an advance of \$5,138,307 from Conexus Credit Union in regard to the upward refinancing of the first mortgage loans of the Temple Gardens hotel.

### ***Mortgage Loan Repayments***

During 2007, mortgage loan principal repayments amounted to \$42,072,177, of which \$1,262,983 represents regular monthly repayments and \$40.8 Million represents the repayment of the interim mortgage loan on the Merit and Nomad hotel properties.

### ***Transaction Costs***

During the three months ended December 31, 2007, transaction costs amounted to \$149,089, consisting of \$67,447 in financing fees for the refinancing of Chateau Nova, \$15,358 related to the defeased loan and \$66,284 related entirely to the first mortgage loan re-financing for the Merit Nomad properties.

### ***Defeasance Assets and Liability***

The purchase of the Nomad Inn encompassed the acquisition of the bare trustee company which held title to the properties. The debt of the bare trustee company included a loan with Computer Share Trust Company of Canada of \$3,690,806. As the loan could not be discharged on closing due to the nature of the loan security, the loan was defeased. In this regard, the bare trustee company effectively nullified the loan by placing sufficient Government of Canada bonds in escrow with Computer Share to offset the debt obligations. The fair value of the bonds was \$4,151,677.

The debt of bare trustee company is disclosed on the balance sheet of Temple REIT as a "defeased liability". The Government of Canada bonds in escrow is disclosed as "defeasance assets".

Subsequent to the acquisition of Merit/Nomad hotel properties, the name of the bare trustee company was changed to TREIT Holdings 3.

### ***Units and Convertible Debentures***

In February 2007, Temple REIT completed a public offering of trust units and 5 Year 7.5% Series A Convertible Redeemable Debentures. Pursuant to the offering, Temple REIT sold 5,800,000 trust units at a price of \$5.00 per unit and debentures in the aggregate principal amount of \$14,000,000 for aggregate gross proceeds of \$43,000,000. In March 2007, pursuant to the over-allotment option, Temple REIT sold an additional 696,000 trust units at a price of \$5.00 per unit and additional debentures in the amount of \$1,680,000. In total, the gross proceeds from the offering amounted to \$48,160,000.

Additional information regarding convertible debentures and trust units is provided on pages 19 and 20.

### ***Distributions***

Distributions are paid on a monthly basis. The amount of the monthly distribution is established at the discretion of the Trust and is to be a minimum of 85% of the annual distributable income of the Trust, subject to certain provisions as set forth in the Declaration of Trust.

Effective for the month of September 2007, the monthly distribution was increased from \$0.05 per month, or \$0.60 annually, to \$0.06 per month, or \$0.72 annually. The December 2007 distribution of \$537,177 was paid on December 31, 2007.

The total distributions declared for the year ended December 31, 2007 of \$5,348,041 are equal to 86.81% of distributable income.

Effective for the month of January 2008, the monthly distribution of Temple REIT was increased to \$0.08 per month or \$0.96 annually.

## Investment Activities

### Summary

During the year ended December 31, 2007, the net cash outflow in regard to investment activities amounted to approximately \$151,267,559. The investment activities consisted primarily of transactions related to the acquisition of hotel properties, as well as a \$6 Million mortgage loan investment.

### Property Acquisitions

During the year ended December 31, 2007, Temple REIT acquired six hotel properties. As disclosed in note 3 of the financial statements, the net acquisition cost of the six properties, in the amount of \$140,179,435, was funded by the assumption of mortgage financing of \$96,700,000, with the balance of \$43,479,435 paid in cash.

During the fourth quarter, the Trust also acquired a 2,090 square foot property, a 10,000 square foot property and a 2600 square foot property located in Moose Jaw, Saskatchewan for \$565,000. The buildings will be demolished and converted to additional parking for Temple Gardens Mineral Spa.

### Mortgage Loan Receivable

During the year ended December 31, 2007, Temple REIT also provided \$6 Million of first mortgage financing on a potential hotel acquisition in Edson, Alberta. The loan bears interest at 10% per annum with payments of interest only and matures on May 31, 2008.

## Cash Flow Summary

The net cash inflow from operating, financing and operating activities during the year ended December 31, 2007 was \$2,126,637. After providing for the opening cash balance of \$4,062,737, Temple REIT completed 2007 with a cash balance of \$6,189,374.

## CAPITAL RESOURCES AND LIQUIDITY

### Capital Structure

<u>Capital Structure</u>		<u>December 31, 2007</u>
Long-term debt (excluding transaction costs)	\$	121,370,809
Convertible debentures (net of transaction costs)		11,489,175
Equity component of convertible debentures		2,406,586
Equity raised - trust units (net of issue costs)		<u>40,791,445</u>
Total capitalization	\$	<u>176,058,015</u>
Trust units:		
Authorized - unlimited		
Issued		
December 31, 2007 - 9,295,010		
April xx, 2007 - xxx,xxx,xxx		

### Long-Term Debt

December 31, 2007 - \$121,370,809

December 31, 2006 - \$18,995,485

The long-term debt of Temple REIT consists primarily of mortgage loans which are secured by specific hotel properties. In total, mortgage loans represent 96.7% of the total long-term debt. The remaining portion of the long-term debt consists almost entirely of a \$3,968,084 loan which was obtained in 2002 in order to fund the development of the casino complex at the Temple Gardens hotel.

The balance of long-term debt, as of December 31, 2007, excluding transaction costs, increased by \$102,375,324, compared to the balance as of December 31, 2006. The increase is comprised of the following amounts:

First mortgage loans on new property acquisitions	\$ 86,700,000
Second mortgage loan on new property acquisition	10,000,000
Upward financing of Temple Gardens Mineral Spa	5,138,307
Refinancing of Chateau Nova	1,800,000
Principal repayments	<u>(1,262,983)</u>
	<u>102,375,324</u>

As of December 31, 2007, the weighted average interest rate of the mortgage loan debt of Temple REIT is 6.45% and the weighted average term to maturity is 3.80 years. The ratio of mortgage loan debt, relative to the total acquisition cost of the entire hotel portfolio, is 73.96%. In comparison to the estimated current value of the entire hotel portfolio, the mortgage loan debt ratio is 60.23%. The debt ratios exclude the casino loan.

## Convertible Debentures

### Series A Debentures

As of December 31, 2007, the face value of the 7.5% Series A convertible debentures is \$14,378,700. Based on the current face value, interest payments amount to \$1,092,742, payable in semi-annual installments of \$546,371 on March 31st and September 30th.

The Series A debentures are convertible at the option of the holder, at any time prior to the maturity date or, if applicable, the redemption date, at a per unit price of \$5.75, subject to adjustment for certain conditions. The debentures are redeemable by Temple REIT, in year four and five only, at a price equal to the principal amount plus accrued and unpaid interest, subject to certain conditions. The debentures mature March 31, 2012.

In accordance with generally accepted accounting principles, the total amount of convertible debentures, as disclosed in the financial statements, is divided into debt and equity components based on the present value of future interest and principal payments. The amount by which the total present value exceeds the face value of the convertible debentures is referred to as "accretion". The accretion of the debt component, which serves to increase the carrying value of the debt component, is included in financing expense. As accretion is a "non-cash" transaction, the accretion of the debt component is added back for purposes of calculating operating cash flows and distributable income.

As of December 31, 2007, the total present value of the convertible debentures is \$14,663,998, representing a decrease of \$1,016,002, compared to the face value, due to conversions. The debt and equity component for the debentures is \$12,257,412 and \$2,406,586, respectively.

### Series B Debentures

On April 8, 2008, Temple REIT completed a \$30 Million public offering of Series B Convertible Debentures, bearing interest at a rate of 8.5% for a five year term.

The Series B debentures are convertible at the option of the holder, at any time prior to the maturity date or, if applicable, the redemption date, at a per unit price of \$7.50, subject to adjustment for certain conditions. The debentures are redeemable by Temple REIT, in year four and five only, at a price equal to the principal amount plus accrued and unpaid interest, subject to certain conditions. The debentures mature March 31, 2013.

## Trust Units

The following is a summary of the units which have been issued by TREIT during the year ended December 31, 2007.

Issue Date	Description	Units Issued	Equity Raised
Units outstanding January 1, 2007		2,345,837	\$ 8,620,218
February 15, 2007	Public offering	5,800,000	29,000,000
March 14, 2007	Over allotment option	696,000	3,480,000
January 1 - December 31, 2007	Unit options exercised	161,164	613,492
January 1 - December 31, 2007	Warrants exercised	65,701	328,505
January 1 - December 31, 2007	Exercise of Series A convertible debentures	226,308	1,110,110
	Value associated with options exercised		35,642
	Equity component of convertible debentures converted		217,801
	Value associated with warrants exercised		32,119
	Issue costs		(2,393,000)
Units outstanding, December 31, 2007		<u>9,295,010</u>	<u>\$ 41,044,887</u>

## Unit Options and Warrants

Pursuant to the Unit Option Plan, the Trust may grant unit purchase options to the Trustees, Directors and Senior Officers of TREIT and to other individuals who are employed or retained by the Trust to perform specific duties, provided that the number of units reserved for issuance will not exceed 10% of the issued and outstanding units. The unit options are exercisable for a maximum period of five years from the date on which the unit options are granted.

During 2006, options to Trustees and Officers to acquire an aggregate of 181,331 units were granted. The exercise price is \$3.00 for 61,331 options and \$5.00 for the balance of the 120,000 options. The options expire in 2011. During the third quarter of 2007, 38,333 options were exercised at \$3.00 per unit.

Also during 2006, the Agents of the Trust were granted warrants for 78,144 units at \$5.00 per unit, which expired September 29, 2007 and options for 56,666 units or \$3.00 per unit which expire February 22, 2008. During the third quarter of 2007, 67,170 warrants were exercised and 12,443 warrants expired.

On May 1, 2007, Temple REIT issued a total of 98,000 options to the four independent Trustees, the Chief Financial Officer and a management employee of Shelter Canadian to purchase units at a price of \$5.00 per unit. The options are exercisable immediately.

The accounting policy of Temple REIT provides for the estimated fair value of options which are issued under the unit option plan to be expensed over the vesting period of the options and for expense to be recorded as "unit-based compensation". Unit-based compensation expense is included in trust expense in the Consolidated Statement of Operations. As unit-based compensation is a "non-cash" expense, it does not impact the operating cash flows of the Trust. Options which are issued to agents in conjunction with private placements or private offerings of trust units are recorded as unit issue costs and charged to equity.

The estimated cost of all of the options and warrants which were issued in 2006 was charged to the equity of the Trust as a cost of issuing units. As the options which were issued in May 2007 were exercisable immediately, the estimated fair value of the options, in the amount of \$43,306, was fully expensed during the second quarter of 2007.

## Capital Requirements

### General

On an annual basis, Temple REIT is generating sufficient cash from operating activities to fully fund operating costs and mortgage loan debt service costs for its entire portfolio of hotel properties, as well as interest payable on convertible debentures and trust expenses.

Temple REIT requires other sources of capital in order to fund property acquisitions and capital improvements.

### Contractual Obligations

#### Long-term Debt and Lease Payments

##### Year End Summary

A summary of the long-term debt and operating lease obligations of Temple REIT for 2008 and for each of the next five years and thereafter, is provided in the following chart.

##### Summary of Contractual Obligations

Payments Due By Period	Total	< 1 year	1 - 3 years	4 - 5 years	> 5 years
Long-term debt	\$121,370,809	\$ 13,783,032	\$ 47,756,603	\$ 17,717,308	\$ 42,113,866
Operating leases	2,433,700	530,291	982,937	920,472	-
Total	\$123,804,509	\$ 14,313,323	\$ 48,739,540	\$ 18,637,780	\$ 42,113,866

Management intends to refinance the balloon payments on the mortgage loans, under similar terms and conditions, effective on the due date of the payments.

As of March 31, 2008, \$3.3 Million of the long-term debt due in 2008 has matured. The matured debt has been renewed for a five year term, at an interest rate of 5.06% (previously 6.16%). Of the remaining 2008 debt maturity, \$7.5 Million matures on November 30, 2008.

##### Additional Mortgage Debt - Subsequent to December 31, 2007

Subsequent to December 31, 2007, Temple REIT completed additional mortgage financing arrangements, as follows:

- a 6.285% first mortgage loan of \$11.64 Million was obtained in January 2008 in regard to the acquisition of the Advantage West Inn and Suites. The loan matures in 2013.
- an 11.25% interest only blanket mortgage loan of \$4 Million was obtained in January 2008. The loan was reduced to \$200,000 on April 10, 2008.

### Property Acquisitions

As previously disclosed, the acquisition of the Advantage West Inn and Suites was acquired by Temple REIT on February 1, 2008 at a purchase price of \$19.4 Million. The acquisition was funded from the proceeds of \$11.64 Million first mortgage loan, with the balance of \$7.76 Million paid in cash. The cash payment was partially funded by an interest only blanket second mortgage loan of \$4 Million. The interest only blanket mortgage loan of \$4 Million was reduced to \$200,000 on April 10, 2008.

Although a number of hotel properties are targeted for acquisition in the near future, there are no other property acquisitions under unconditional contract as of the date of this report.

Deposits on potential acquisitions amount to \$525,000, as of December 31, 2007.

## Capital Expenditures

In addition to the upgrades which are completed in the normal course of annual hotel operations, Temple REIT is undertaking an expansion of both the Merit Hotel and the Nomad Hotel in Fort McMurray. The Merit Hotel is scheduled to commence construction this spring for completion in late 2009. The expansion will include 68 new guest rooms and 27 new underground parking spaces. The total cost is estimated to be \$16.2 Million. The Nomad hotel expansion will encompass the addition of up to 80 new rooms and a 4,800 square foot expansion of the premises for the Keg Restaurant, including an expansion of the underground parking area at an estimated cost of \$20 Million.

## Sources of Capital

Over the long-term, it is anticipated that convertible debenture or trust unit offerings will continue to serve as the primary source of capital for property acquisitions and that capital improvements will be funded primarily from mortgage loan financing and/or working capital.

As of December 31, 2007, the cash balance of Temple REIT was \$6.19 Million, while the working capital balance was \$9.94 Million, excluding the current portion of long-term debt and the current portion of the defeased asset and defeased liability.

As noted above, the equity component for the acquisition of Advantage West Inn and Suites, in February 2008 was funded from working capital and from the interest-only blanket second mortgage loan. After deducting issue costs, the Series B convertible debenture offering, which was completed in April 2008, provided approximately \$28.16 Million of additional investment capital.

## Trends

During the first quarter of 2008, Temple REIT is expected to achieve growth in net income and operating cash flows, in comparison to the fourth quarter of 2007, mainly due to the incremental income associated with the ownership of the Advantage West Inn and Suites for the period from February 1, 2008 to March 31, 2008.

Overall the expectation for 2008 is that the Trust will continue to achieve significant growth in net income and operating cash flows, although the additional financing expenses associated with the Series B debentures will initially exceed the incremental income from new property acquisitions depending on the timing of the new acquisitions.

## HOTEL MANAGEMENT

Temple REIT has retained Atlific Hotels and Resorts to manage all of the hotels for its existing property portfolio. The terms of management for each of the hotels are provided below.

	Expiry Date	Base Management Fee		
		Year 1	Year 2	Year 3 to Year 5
				% of Gross Revenues
Temple Gardens	Sept. 30, 2011	\$175,000	\$200,000	2.5%
Chateau Nova	Mar. 22, 2012	\$45,000	\$65,000	2.5%
Clearwater Suites	Mar. 31, 2012	\$135,000	\$200,000	2.0%
Merit Inn and Suites	Apr. 30, 2012	\$100,000	\$150,000	2.0%
Nomad Hotel and Suites	Apr. 30, 2012	\$125,000	\$150,000	2.0%
Advantage West Inn and Suites	Jan. 31, 2013	\$125,000	\$150,000	2.0%

In addition to the base management fee, the management agreement for each hotel also provides for an incentive management fee. The incentive management fee is equal to 10% of the amount by which the net operating income of the hotel exceeds the budgeted net operating income commencing in the second year after acquisition of the hotels.

In total, Atlific received \$482,917 in base management fees in 2007.

## RELATED PARTY TRANSACTIONS

### Shelter Canadian Properties Limited ("Shelter Canadian")

Asset management services are provided to Temple REIT by Shelter Canadian, pursuant to the terms of an Asset Management Agreement. The Asset Management Agreement also requires Shelter to act as administrator of the Trust by providing accounting and human resource services, office space and equipment and the necessary clerical and secretarial personnel for the administration of the day-to-day activities of Temple REIT.

The Asset Management Agreement provides for Shelter Canadian to receive an asset management fee equal to 1.5% of the gross revenues of the hotel properties and assets of the Trust and to be reimbursed for all expenses incurred in connection with fulfilling the role of Administrator, including third party costs.

During the fourth quarter of 2007, Shelter Canadian charged asset management fees of \$163,451.

Mr. Arni Thorsteinson, the President and Chief Executive Office of Temple REIT and a Trustee, is a Director and President of Shelter Canadian and the President of the parent corporation of Shelter Canadian, 2668921 Manitoba Ltd.

## OPERATING RISKS AND UNCERTAINTIES

An investment in units of Temple REIT encompasses the risks which are inherent in the ownership and operation of a portfolio of hotel properties, as well as the normal risks which are associated with an investment in a real estate investment trust.

The key risks include the following:

### Hotel Industry

Specific risks associated with hotel ownership and operations include:

- cyclical downturns arising from changes in general and local economic conditions;
- changes in the level of business and commercial travel and tourism;
- increases in the supply of accommodations in local markets which may adversely affect the results of operations;
- competition from other hotels;
- the recurring need for renovation, refurbishment and improvement of hotel properties;
- changes in wages, prices, energy costs and construction and maintenance costs that may result from inflation, government regulations, changes in interest rates or currency fluctuations;
- availability of financing for operating or capital requirements;
- seasonal fluctuations in hotel operating income produced throughout the year;
- increases in operating costs due to inflation which may not necessarily be offset by increase room rates;
- increases in expenses of travel, particularly automotive travel; and
- other factors, including medical concerns related to travelling to Canada, acts of terrorism, natural disasters, extreme weather conditions and labour shortages, work stoppages or disputes.

### **Fluctuations in Cash Distributions**

A return on an investment in Units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in Units is at risk, and the return on an investment in Units is based on many performance assumptions. Although Temple REIT intends to distribute its Distributable Income, the actual amount of Distributable Income distributed in respect of Units will depend on numerous factors, including the amount of principal repayments, tenant allowances, leasing commissions, capital expenditures and other factors that may be beyond the control of Temple REIT. Cash distributions may be reduced or suspended at any time. In addition, the market value of the Units may decline if Temple REIT is unable to provide a satisfactory return to Unitholders.

### **Public Market Risk**

It is not possible to predict the price at which Units will trade in the future and there can be no assurance that an active trading market for the Units will be sustained. The Units will not necessarily trade at values determined solely by reference to the value of the properties of Temple REIT. Accordingly, the Units may trade at a premium or a discount to the value implied by the value of the properties of Temple REIT. The market price for the Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of Temple REIT.

### **Concentration of Temple REIT's Portfolio in One Market**

The property portfolio of Temple REIT has significant exposure to the Fort McMurray, Alberta market. As of December 31, 2007, Temple REIT had seven hotel properties in its real estate portfolio, five of which are located in Fort McMurray, Alberta. The five properties represent approximately 76% of the total acquisition cost of the portfolio, as of December 31, 2007, and approximately 65% of the total hotel rooms.

In January 2008, Temple REIT acquired an additional hotel in Fort McMurray, Alberta, thereby increasing the Fort McMurray portfolio to six hotel properties. The six properties represent approximately 79% of the total acquisition cost of the portfolio, as of March 31, 2008, and approximately 69% of the total hotel rooms.

### **Changes to Tax Treatment of Trusts**

Temple REIT currently qualifies as a Mutual Fund Trust for income tax purposes. As required by its Declaration of Trust, Temple REIT intends to distribute all taxable income to its Unitholders and to deduct these distributions for income tax purposes. Except for corporate subsidiaries of Temple REIT, no provision for income taxes is required under the current Canadian income tax legislation.

On June 22, 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts (the "New SIFT Rules") was enacted. Under the New SIFT Rules, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation, however, distributions paid by a SIFT as a return of capital will generally not be subject to the tax.

The New SIFT Rules provide that a SIFT which was publicly listed prior to November 1, 2006 (an "Existing Trust") will become subject to the tax on distributions commencing in the 2011 taxation year, however, an Existing Trust may become subject to this tax prior to 2011 if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. Based on its October 31, 2006 market capitalization, Temple REIT may increase its equity capital by \$50 Million for each of the years ending December 31, 2008, December 31, 2009 and December 31, 2010 (the "Safe Harbour Limit"). To date, Temple REIT's equity capital has not increased beyond the Safe Harbour Limit.

The New SIFT Rules do not apply to a "real estate investment trust" (a "Qualifying REIT") that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). In the opinion of management, the Trust does not currently satisfy the prescribed conditions. Accordingly, Temple REIT is subject to the New SIFT Rules and, subject to earlier application if it increases its equity capital beyond its Safe Harbour Limit, Temple REIT will be subject to the tax on distributions commencing in 2011.

### **Relationship with Shelter Canadian**

The financial performance of Temple REIT will depend in part on the performance of Shelter Canadian in providing administrative and asset management services to the Trust, pursuant to the Services Agreement.

### **Reliance on Key Personnel**

The success of Temple REIT is highly dependent on the services of certain management personnel, including Arni Thorsteinson. The loss of the services of such personnel could have an adverse effect on Temple REIT.

### **Other Risks**

Other risks, uncertainties and items of relevance include liquidity, financing, environmental and diversification risks; the risks associated with franchised hotels, land leases, interest rate fluctuations and the operation of the Temple Gardens hotel; the risk of general uninsured losses and the failure to maintain mutual fund trust status, as well as restrictions on redemptions, the potential the lack of available growth opportunities, potential Unitholder liability, potential conflicts of interest, uncertainties regarding the market price of Units, the legal rights attaching to Units, other tax related risk factors and the potential dilution arising from the issue of additional Units.

These topics are more fully explained in the other regulatory filings of Temple REIT, including the March 2008 prospectus for the public offering of the Series B convertible debentures.

## **CRITICAL ACCOUNTING ESTIMATES**

The significant accounting policies of Temple REIT are disclosed in note 2 of the consolidated financial statements. As disclosed in note 2, the application of the significant accounting policies for purposes of preparing the consolidated financial statements, in accordance with Canadian generally accepted accounting principles (GAAP), requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from the estimated amounts. Many of the conditions impacting the assumptions and estimates are beyond the control of management. The estimates and assumptions are evaluated on a periodic basis.

Financial statement items which encompass estimates include the following:

- amortization of property and equipment - amortization expense is based on the estimated useful life of the property and equipment;
- carrying amount of goodwill - the carrying amount of goodwill is periodically compared to its estimated fair value in order to determine if there has been any impairment in value; and
- unit-based compensation expense - unit-based compensation expense is based on the estimated fair value of the applicable units and warrants using the Black-Scholes option pricing method.

The estimates which were used for financial statement reporting purposes, for the above noted items, are not expected to change from period to period.

## CHANGES IN ACCOUNTING POLICY

### New Accounting Standards Adopted January 1, 2007

Effective January 1, 2007, Temple REIT adopted six new accounting standards that were issued by the CICA. In general, the new accounting standards address the disclosure of comprehensive income, the recognition measurement, disclosure and presentation of financial instruments, the presentation of equity and the accounting treatment for hedged transactions and accounting changes.

#### *Comprehensive Income*

In accordance with the new accounting standards, the consolidated Statements of Income of Temple REIT now discloses the "comprehensive" income of the Trust. The comprehensive income includes the income of the Trust for the period, plus Other Comprehensive Income ("OCI"). OCI generally includes unrealized gains or losses on financial assets classified as available for sale, unrealized foreign currency adjustments and changes in the fair value of hedging instruments. As applicable, the financial statements of Temple REIT will include a Statement of Other Comprehensive Income, while the accumulated amount of Other Comprehensive Income (AOCI) will be presented as a category of Unitholders' Equity.

As the Trust does not have any amounts classified as OCI, the comprehensive income of the Trust in 2007 is the same as the income for the period.

#### *Financial Instruments*

In accordance with the new accounting standards, all financial instruments are to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on the classification of the financial instrument.

The classification of all of the financial instruments of Temple REIT is disclosed in note 2 of the audited financial statements. As disclosed in note 2, all of the financial instruments of Temple REIT are being measured at "amortized cost" with the exception of cash and cash in escrow which are measured at fair value.

The new accounting standards for financial instruments also address the treatment of transaction costs. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of mortgage financing, convertible debenture debt and other financial assets or liabilities. Effective January 1, 2007, transaction costs of \$37,397, which were previously included in "Deferred Charges, were reclassified as a reduction to long-term debt.

#### *Equity*

As noted above, the Trust does not have any amounts classified as OCI and as a result, there were no significant changes to the Consolidated Statements of Equity in 2007.

#### *Hedged Transactions*

The new accounting standards for hedges did not impact the financial statements of Temple REIT, as the Trust does not have any hedging transactions.

#### *Accounting Changes*

The detailed explanation of the changes in accounting policies, as disclosed in note 2 of the audited financial statements, reflects the new standards for the treatment and disclosure of accounting changes.

## **Future Changes to Accounting Standards**

Effective January 1, 2008, Temple REIT adopted three additional new accounting standards pursuant to Canadian GAAP. In general, the new accounting standards address the presentation of financial instruments and non-financial derivatives and the disclosure requirements in regard to the objectives, policies and processes of the Trust for managing capital.

Management is currently considering the affect of the new standards on the financial statements of the Limited Partnership.

## **FINANCIAL INSTRUMENTS**

The financial instruments of Temple REIT consist of basic financial instruments which are typically used in the operation and ownership of hotel properties and in the operation of a real estate investment trust, including cash, term deposits, accounts receivable, accounts payable and accrued liabilities, gift certificate liabilities, mortgage loans and other long-term debt secured by the revenues or assets of hotel properties.

The fair value of the mortgage loans and other long-term debt approximates the carrying value due to the nature of the debt and the relatively short terms to maturity. The fair value of the current assets and liabilities approximates the carrying value due to the immediate or short-term nature of the instruments.

For the current assets and liabilities, the main risk is the credit risk associated with accounts receivable. The credit risk is reduced due to a diversified customer base. The risks associated with mortgage loans and long-term debt include the risk of interest rate increases for maturing loans and the risk of potential defaults in debt payments due to insufficient cash flows. In order to minimize the risk associated with potential interest rate increases, Temple REIT will stagger debt maturity dates, to the extent possible. Temple REIT attempts to minimize the risk of any defaults in debt payments through its investment and operating policies which include focusing on hotel acquisitions with a history of stable cash flows and restricting the amount of mortgage loan financing to 75% of the appraised value of the hotel properties.

## **TAXATION**

### **Taxation of Temple REIT**

Temple REIT is generally subject to tax in Canada under the Income Tax (the "Tax Act") in respect to its taxable income each year, except to the extent such taxable income is paid or deemed to be payable to Unitholders and deducted by Temple REIT for tax purposes.

Pursuant to the Declaration of Trust of Temple REIT, the Trustees intend to distribute or designate all taxable income directly earned by Temple REIT to the Unitholders of the Trust in order to ensure that Temple REIT will not be subject to income tax under Part I of the Tax Act.

### **Taxation of Unitholders**

A Unitholder is required to include, in computing for tax purposes each year, the portion of the amount of net income and net taxable capital gains of Temple REIT paid or payable to the Unitholder in the year. The Declaration of Trust generally requires Temple REIT to claim the maximum amount of capital cost allowance for purposes of computing its income for tax purposes. The cash distributions which have been paid to the Unitholders, since the inception of Temple REIT as a real estate investment trust in 2006, have exceeded the income of Temple REIT, as calculated for income tax purposes. Distributions in excess of the taxable income of Temple REIT are allocated to the Unitholder for the year and will not be included in computing the taxable income of the Unitholder. The adjusted cost base of the units which are held by the Unitholder will, however, be reduced by the amount of distributions not included in income.

Upon the disposition or deemed disposition by a Unitholder of a unit, a capital gain (or a capital loss) will generally be realized to the extent that the net proceeds of disposition of the unit exceed (or are exceeded by) the adjusted cost base of the unit. Currently, only 50% of a capital gain ("taxable capital gain") must be included in computing a Unitholders' income and 50% of a capital loss (an "allowable capital loss") may be deducted against taxable capital gains.

## **CONTROLS AND PROCEDURES**

### **Disclosure Controls**

The management of Temple REIT, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the disclosure controls and procedures for the Trust. Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding disclosure.

The CEO and CFO evaluated the effectiveness of the disclosure controls and procedures of Temple REIT (as defined in Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2007 and have concluded that the controls and procedures are operating effectively.

### **Internal Controls Over Financial Reporting**

The management of Temple REIT, including the CEO and CFO, are also responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP).

An assessment of the design of the internal controls over financial reporting for Temple REIT (as defined in Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2007 was conducted by management of Temple REIT under the supervision of the CEO and CFO. Based on that assessment, management has determined that the internal controls over financial reporting were appropriately designed.

No changes were made to the design of the internal controls over financial reporting during the year ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

Readers are cautioned, however, that a control system can only provide reasonable, not absolute, assurance that the objectives of the control system are achieved. Due to the inherent limitations in all control systems, an evaluation of controls cannot provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. Inherent limitations include the possibility that the assumptions and judgments of management could ultimately prove to be incorrect under varying conditions and circumstances, or that isolated errors could prove to have a significant impact on the reliability of information.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and it is not possible to provide complete assurance that a control system will succeed in achieving its stated goals under all potential future conditions.

## **ADDITIONAL INFORMATION**

Additional information relating to Temple REIT is available on the SEDAR website at [www.sedar.com](http://www.sedar.com). SEDAR acts as a facilitator for the electronic filing of securities information, as required by the securities regulatory agencies in Canada.

## **APPROVAL BY TRUSTEES**

The content of the 2007 Annual Report of Temple REIT and the delivery of the report to the Unitholders have been approved by the Trustees.

TEMPLE REAL ESTATE INVESTMENT TRUST  
April 22, 2008

## MANAGEMENT'S RESPONSIBILITY

The financial statements contained in the annual report have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on management's best judgment in the circumstances. The financial information presented throughout the annual report is consistent with the information contained in the financial statements.

Scarrow & Donald LLP, the independent auditors, were appointed by the Unitholders and are responsible for auditing the financial statements and giving an opinion thereon.

The financial statements have been reviewed and approved by the Board of Trustees and by the Audit Committee, which is comprised of the three independent Trustees. The Audit Committee meets regularly with management and the auditors. The auditors have full and direct access to the Audit Committee.

*"Arni Thorsteinson"*

Arni Thorsteinson  
Chief Executive Officer

*"John Liddle"*

John Liddle  
Chief Financial Officer

April 22, 2008

April 22, 2008

**SCARROW & DONALD LLP  
CHARTERED ACCOUNTANTS**

100 - Five Donald Street  
Winnipeg, Manitoba R3L 2T4  
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## AUDITORS' REPORT

**To the Unitholders of  
Temple Real Estate Investment Trust:**

We have audited the consolidated balance sheets of Temple Real Estate Investment Trust as at December 31, 2007 and 2006 and the consolidated statements of income and comprehensive income, equity and cash flows for the year ended December 31, 2007 and 349 days ended December 31, 2006. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2007 and 2006 and the results of its operations and cash flows for the year ended December 31, 2007 and 349 days ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

*Scarrow & Donald LLP*

Chartered Accountants  
Winnipeg, Canada

CONSOLIDATED BALANCE SHEETS

	December 31 2007	December 31 2006
<b>Assets</b>		
Current assets		
Cash	\$ 6,189,374	\$ 4,062,737
Accounts receivable	2,742,467	244,852
Inventories	248,056	203,964
Prepaid expenses	319,870	39,032
Mortgage receivable (Note 5)	6,000,000	-
Current portion of net investment in lease (Note 6)	108,859	101,440
Current portion of defeasance assets (Note 9)	678,000	-
	<u>16,286,626</u>	<u>4,652,025</u>
Property and equipment (Note 4)	157,558,388	21,610,051
Deferred charges	-	37,397
Net investment in lease (Note 6)	4,758,781	4,867,640
Other assets (Note 7)	1,053,003	125,000
Defeasance assets (Note 9)	3,350,771	-
Goodwill	<u>1,608,282</u>	<u>1,669,678</u>
	<u><b>\$184,615,851</b></u>	<u><b>\$ 32,961,791</b></u>
<b>Liabilities and Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,236,694	\$ 823,814
Gift certificate liability	1,913,649	1,636,257
Income taxes payable	520,899	68,588
Current portion of long-term debt (Note 8)	13,254,446	5,149,340
Current portion of defeased liability (Note 9)	322,942	-
	<u>19,248,630</u>	<u>7,677,999</u>
Long-term debt (Note 8)	106,468,863	13,846,145
Defeased liability (Note 9)	3,188,952	-
Convertible debentures (Note 10)	11,489,175	-
Future income taxes (Note 12)	<u>2,988,872</u>	<u>2,932,469</u>
	<u>143,384,492</u>	<u>24,456,613</u>
Equity	<u>41,231,359</u>	<u>8,505,178</u>
	<u><b>\$184,615,851</b></u>	<u><b>\$ 32,961,791</b></u>

Approved by the Trustees

"Arni Thorsteinson"

"David Drybrough"

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Year Ended December 31 2007	349 Days Ended December 31 2006
<b>Revenue</b>		
Hotel revenue	\$ 32,696,559	\$ 2,786,009
Interest and other income	<u>1,710,000</u>	<u>199,273</u>
	<b>34,406,559</b>	<b>2,985,282</b>
<b>Expenses</b>		
Hotel operating costs	<u>17,387,913</u>	<u>2,162,108</u>
Operating income	<u>17,018,646</u>	<u>823,174</u>
Finance expense (Note 11)	9,272,047	291,033
Trust expense	760,500	146,702
Amortization	<u>3,216,254</u>	<u>264,298</u>
	<u>13,248,801</u>	<u>702,033</u>
Income before taxes	<b>3,769,845</b>	<b>121,141</b>
Income taxes:		
Current	446,020	36,093
Future (Note 12)	<u>56,403</u>	<u>(24,329)</u>
	<u>502,423</u>	<u>11,764</u>
Net income and comprehensive income	<u><b>\$ 3,267,422</b></u>	<u><b>\$ 109,377</b></u>
Net income per unit (Note 17)		
Basic	\$ 0.407	\$ 0.097
Diluted	<b>0.404</b>	<b>0.096</b>

CONSOLIDATED STATEMENTS OF EQUITY

	Year Ended December 31 2007	349 Days Ended December 31 2006
<b>Trust units (Note 14)</b>		
Balance, beginning of period	\$ 8,620,218	\$ -
Issuance of trust units	33,421,997	9,895,885
Units issued on conversion of debentures	1,110,110	-
Equity component of debentures converted	217,801	-
Value associated with options exercised	35,642	-
Value associated with warrants exercised	32,119	-
Unit issue costs	<u>(2,393,000)</u>	<u>(1,275,667)</u>
Balance, end of period	<u>41,044,887</u>	<u>8,620,218</u>
<b>Unit options (Note 15)</b>		
Balance, beginning of period	65,800	-
Value associated with unit options granted	43,306	65,800
Value associated with options exercised	<u>(35,642)</u>	<u>-</u>
Balance, end of period	<u>73,464</u>	<u>65,800</u>
<b>Warrants (Note 15)</b>		
Balance, beginning of period	38,200	-
Value associated with warrants granted	-	38,200
Warrants exercised	(32,119)	-
Warrants expired	<u>(6,081)</u>	<u>-</u>
Balance, end of period	<u>-</u>	<u>38,200</u>
<b>Equity component of convertible debentures (Note 10)</b>		
Equity component of convertible debentures issued	2,624,387	-
Equity component of debentures converted	<u>(217,801)</u>	<u>-</u>
Balance, end of period	<u>2,406,586</u>	<u>-</u>
<b>Cumulative earnings and accumulated comprehensive earnings</b>		
Balance, beginning of period	109,377	-
Value associated with warrants expired (Note 15)	6,081	-
Net income	<u>3,267,422</u>	<u>109,377</u>
Balance, end of period	<u>3,382,880</u>	<u>109,377</u>
<b>Cumulative distributions to unitholders</b>		
Balance, beginning of period	(328,417)	-
Distribution to unitholders	<u>(5,348,041)</u>	<u>(328,417)</u>
Balance, end of period	<u>(5,676,458)</u>	<u>(328,417)</u>
<b>Total unitholders' equity</b>	<u>\$ 41,231,359</u>	<u>\$ 8,505,178</u>
<b>Units issued and outstanding (Note 14)</b>	<u>9,295,010</u>	<u>2,345,837</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2007	349 Days Ended December 31 2006
<b>Cash provided by (used in) operating activities</b>		
Net income and comprehensive income	\$ 3,267,422	\$ 109,377
Items not affecting cash		
Accretion on debt component of convertible debentures	310,909	-
Unit-based compensation	43,306	-
Amortization	3,216,254	264,298
Amortization of transaction costs	470,740	-
Future income taxes	56,403	(24,329)
	<u>7,365,034</u>	<u>349,346</u>
Changes in non-cash operating items	<u>728,443</u>	<u>908,229</u>
	<u>8,093,477</u>	<u>1,257,575</u>
<b>Cash provided by (used in) financing activities</b>		
Proceeds of long-term debt	148,138,306	6,652,593
Debt repaid on refinancing	(40,809,194)	-
Proceeds of convertible debentures	15,680,000	-
Decrease in defeased liability	(85,108)	-
Repayment of long-term debt	(1,262,982)	(127,515)
Private placement of units	32,480,000	8,512,000
Exercise of options	613,492	-
Exercise of warrants	328,505	-
Expenditures on transaction costs	(2,041,260)	(39,365)
Unit issue costs	(2,393,000)	(1,171,667)
Distributions paid on trust units	(5,348,041)	(328,417)
Repayment of lease obligation	-	(19,237)
	<u>145,300,718</u>	<u>13,478,392</u>
<b>Cash provided by (used in) investing activities</b>		
Hotel properties acquired	(140,179,435)	(12,248,408)
Additions to property and equipment	(377,188)	(125,788)
Defeasance assets	(4,151,677)	-
Decrease in defeasance assets	122,906	-
Mortgage loan receivable	(6,000,000)	-
Decrease in goodwill	61,396	-
Deposits on potential acquisitions	(400,000)	(125,000)
Receipt of net investment in lease	101,440	16,220
Cash assumed on acquisition	-	1,809,746
Cash in escrow	(445,000)	-
	<u>(151,267,558)</u>	<u>(10,673,230)</u>
<b>Change in cash</b>	<u>2,126,637</u>	<u>4,062,737</u>
<b>Cash, beginning of period</b>	<u>4,062,737</u>	<u>-</u>
<b>Cash, end of period</b>	<u>\$ 6,189,374</u>	<u>\$ 4,062,737</u>
<b>Supplementary cash flow information</b>		
Interest paid	<u>\$ 7,487,675</u>	<u>\$ 217,447</u>
Income taxes paid	<u>\$ 7,669</u>	<u>-</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**1 Organization**

Temple Real Estate Investment Trust ("the Trust") is a open-end real estate investment trust established under the laws of the Province of Manitoba on July 12, 2006. Effective October 1, 2006, a Plan of Arrangement was completed, pursuant to which all of the outstanding shares of HPVC Inc. were exchanged for units of the Trust on a ten for one basis. All of the assets and liabilities of HPVC Inc. were transferred to the Trust as of October 1, 2006.

HPVC Inc. was incorporated under the Canada Business Corporations Act on August 5, 2005 and was classified as a capital pool company as defined in TSX Venture Exchange Inc. (the Exchange) Policy 2.4. HPVC Inc. was inactive prior to January 17, 2006. Subsequent to the plan of arrangement, the shareholders of HPVC Inc. controlled Temple REIT, accordingly, the arrangement has been accounted for as a continuity of interest.

The consolidated interim financial statements of the Trust includes the accounts of the Trust's wholly-owned subsidiaries TR Trust, Temple Limited Partnership, Temple General Partner Inc. and Temple Gardens Mineral Spa Inc., with provision for its 50% proportionate share of assets, liabilities, revenues and expenses of the Moose Jaw Casino Co-ownership. All significant intercompany balances and transactions have been eliminated upon consolidation.

**2 Significant accounting policies**

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements reflect the operations of the Trust and its wholly owned subsidiary, Temple Gardens Mineral Spa Inc.

**Revenue recognition**

**Hotel**

Revenue from services provided and products sold is recognized at the time the service is provided and the products are delivered to the customer. Interest income is recognized on a time proportion basis.

Future income related to the finance-type lease is recognized in a manner that produces a constant rate of return on the net investment in the lease. The investment in the lease for purposes of income recognition is comprised of net minimum lease payments and unearned finance income.

**Accounting estimates**

Accounting estimates are included in financial statements to approximate the effect of past business transactions or events, or to approximate the present status of an asset or liability. Examples include the estimated useful life of an asset. It is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the period in which they become known.

**Inventories**

Inventories are stated at the lower of cost and net realizable value, on a first-in, first-out basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**2 Significant accounting policies (continued)**

**Property and equipment**

Property and equipment are recorded at cost. Property and equipment are amortized over their estimated useful lives. This requires estimation of the useful life of the asset and its salvage and residual value. Long-lived assets are tested for recoverability if events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Impairment losses are measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. As is true for all accounting estimates, it is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. Should an adjustment become necessary, it would be reported in earnings in the period in which it became known. The Trust provides for amortization on fixed assets so as to apply the cost of the assets over the estimated useful lives as follows:

	Method	Rate
Land improvements	Straight-line	5%
Buildings	Straight-line	2.5%
Furniture and equipment	Straight-line	10% - 33.3%

**Goodwill**

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of the net assets acquired. Goodwill is not amortized. Management compares the carrying amount of goodwill to the estimated fair value and recognizes in operations any impairment in value.

**Gift certificate liability**

Gift certificates are recorded as a liability when sold and revenue is recognized upon redemption of the gift certificate. Gift certificates are recognized as revenue if not redeemed within three years from the date of issue. It is management's opinion that there is no liability for a gift certificate beyond its expiry date.

In determining the estimated revenue in conjunction with gift certificate liabilities, the Trust relies on assumptions regarding applicable industry performance and redemption rates, as well as general business and economic conditions that prevail or are expected to prevail. Assumptions underlying the measurement of gift certificate liabilities are limited by the uncertainty of predictions concerning future events. By its nature the evaluation of gift certificate liability is subjective and does not necessarily result in precise determinations. Should an adjustment become necessary it will be adjusted in the period known.

**Convertible debentures**

The convertible debentures are convertible into units, as disclosed in Note 10. Accordingly, the debentures are divided into debt and equity components, based on the net present value of the future payments at the time of issue.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**2      *Significant accounting policies (continued)***

**Unit options and warrants**

The Trust has a unit option plan available for officers, employees and trustees. The fair value based method of accounting is applied to all unit-based compensation. Compensation expense for option based compensation awards is recognized when unit options are granted over the vesting periods. The fair value of the unit options and warrants granted are estimated on the date of grant using the Black-Scholes option pricing model. On exercise of unit options, consideration received and the accumulated unit options amount relating thereto is credited to trust units. Awards of options and warrants related to private placements or public offerings of units are treated as unit issue costs.

**Per unit calculations**

Per unit amounts are calculated using the weighted average number of units outstanding during the year. The dilutive effect on per unit amounts resulting from outstanding unit options is calculated using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

**Income taxes**

The Trust uses the liability method of accounting for income taxes whereby, the Trust is required to: (i) determine its temporary differences between asset balances for income tax purposes and the balances recorded in accordance with GAAP; (ii) determine the periods over which those temporary differences are expected to reverse; and (iii) apply the tax rates enacted at the balance sheet date that will apply in the periods those temporary differences are expected to reverse. The Trust is required to use reasonable estimates in completing the calculation and the result of the calculation is recorded as a future income tax asset or liability.

The Trust, is a "Mutual Fund Trust" for income tax purposes. In accordance with the terms of the Declaration of the Trust, the Trust intends to distribute the greater of taxable income or 85% of distributable income each period by an amount which may be sufficient to ensure the Trust will not be liable for income taxes under Part I of the Income Tax Act.

In June 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts was enacted. Under the new rules, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid as returns of capital will not be subject to this tax.

The new rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its income and investments (a "Qualifying REIT"). In the opinion of management, the Trust does not currently satisfy the prescribed conditions. The new legislation is not expected to apply to the Trust until 2011 as it provides for a transition period for publicly traded entities that existed prior to November 1, 2006. As the Trust does not meet the criteria for a Qualifying REIT, GAAP requires that the future income tax asset and liability calculation and estimates reflect its current income tax status.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**2      *Significant accounting policies (continued)***

Temple Gardens Mineral Spa Inc., a wholly owned subsidiary of the Trust, is an operating business and provides for income tax expense using the liability method of accounting for income taxes. Current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

***Change in accounting policies***

On January 1, 2007, the Trust adopted six new accounting standards that were issued by the CICA. Handbook Section 1530 - Comprehensive Income, Handbook Section 3855 - Financial Instruments - Recognition and Measurement, Handbook Section 3865 - Hedges, Handbook Section 3861 - Financial Instruments - Disclosure and Presentation, Handbook Section 3251 - Equity, and Handbook Section 1506 - Accounting Changes. As required, the new standards are applied retroactively without restatement and accordingly, comparative amounts for prior periods, if any, have not been restated.

***Comprehensive Income, CICA Handbook Section 1530***

Comprehensive income includes net income and other comprehensive income ("OCI"). OCI generally includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation adjustments net of hedging arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. The Trust's financial statements will include a statement of other comprehensive income for any items included in OCI while the cumulative amount and accumulated other comprehensive income ("AOCI"), will be presented as a category of unitholders' equity.

***Financial Instruments - Recognition and Measurement, CICA Handbook Section 3855***

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other liabilities.

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. For other financial instruments, transaction costs are capitalized on initial recognition and are measured at amortized cost using the effective interest method. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs include fees and commission paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net earnings. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**2 Significant accounting policies (continued)**

Derivative instruments are recorded on the balance sheet at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in net earnings, except for derivatives that are designated as cash flow hedges, in which case the fair value change for the effective portion of such hedging relationships are recognized in OCI.

The Trust may designate any financial instrument whose fair value can be reliably measured as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855.

The standard specifically excludes Section 3065 - Leases, from the definition of financial instruments, except for derivatives that are embedded in a lease contract. Other significant accounting implications arising on adoption of the standard include the initial recognition of certain financial guarantees at fair value on the balance sheet (no subsequent re-measurement at fair value is required unless the financial guarantee qualifies as a derivative), and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Upon adoption of these standards, the Trust has designated its financial instruments, as follows:

<b><u>Financial Statement Item</u></b>	<b><u>Classification</u></b>	<b><u>Measurement</u></b>
Cash	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Cash in escrow	Held-for-trading	Fair value
Mortgage receivable	Loans and receivables	Amortized cost
Defeasance assets	Held-to-maturity	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Defeased liability	Other financial liabilities	Amortized cost
Convertible debentures - debt component	Other financial liabilities	Amortized cost

***Hedges, CICA Handbook Section 3865***

This standard specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for each of the permitted hedging strategies including fair value hedges and cash flow hedges. The Trust has no hedging transactions.

***Equity, CICA Handbook Section 3251***

With the introduction of the new standards relating to financial instruments, the CICA has replaced previous Section 3250 - Surplus with Section 3251 - Equity. This new section establishes standards for the presentation of equity and changes in equity during the reporting period.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**2      *Significant accounting policies (continued)***

***Financial Instruments - Disclosure and Presentation, CICA Handbook Section 3861***

This Section establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The presentation paragraphs deal with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The disclosure paragraphs deal with information about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments. This Section also deals with disclosure of information about the nature and extent of an entity's use of financial instruments, the business purposes they serve, the risks associated with them and management's policies for controlling those risks.

***Accounting Changes, CICA Handbook Section 1506***

The objective of this Section is to prescribe the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This Section is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

***Impact of adopting changes in accounting policies***

As a result of adopting the above standards:

- Effective, January 1, 2007, financial liabilities are reduced by related deferred financing cost considered to be transaction costs that were previously disclosed as a component of deferred costs. Deferred financing costs of \$37,397 that were related to outstanding debt at December 31, 2006, have been reclassified by reducing mortgages by \$37,397. As required by the accounting standards, prior year comparative figures have not been restated.

***Future changes to significant accounting policies***

CICA Handbook Sections 3862 - Financial Instruments - Disclosures and 3863 - Financial Instruments - Presentation will be effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. These Sections establish standards for presentation of financial instruments and non-financial derivatives and complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Handbook Section 3855 - Financial Instruments - Recognition and Measurement, Handbook Section 3865 - Hedges. The sections deal with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**2 Significant accounting policies (continued)**

CICA Handbook Section 1535 - Capital Disclosures will be effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The section will require the Trust to disclose information that enables users of its financial statements to evaluate the Trust's objectives, policies and processes for managing capital.

Management is currently considering the affect on the financial statements of the new standards.

***Change in accounting estimate***

During the year ended December 31, 2007, a dispute regarding the overpayment of architectural fees was resolved whereby Temple Gardens Mineral Spa was repaid \$61,396. The effect of this change is to increase cash by \$61,396 and decrease goodwill by \$61,396 in the period. There is no effect on the financial statements in future periods as a result of this change.

**3 Acquisitions**

The Trust has completed the following acquisitions. The net assets acquired in the transactions are as follows:

Year ended December 31, 2007

<u>Date</u>	<u>Property</u>	<u>Total Purchase Price</u>	<u>Mortgage Financing Amount</u>
March 22, 2007	Chateau Nova Yellowknife, Northwest Territories	\$ 13,168,663	\$ 6,200,000
March 30, 2007	Clearwater Suites Fort McMurray, Alberta	57,477,144	46,000,000
April 30, 2007	Merit Hotel Fort McMurray, Alberta	16,186,666	10,413,000
April 30, 2007	Merit Inn and Suites Fort McMurray, Alberta	18,990,685	12,237,500
April 30, 2007	Nomad Hotel Fort McMurray, Alberta	23,989,713	15,352,500
April 30, 2007	Nomad Suites Fort McMurray, Alberta	<u>10,366,564</u>	<u>6,497,000</u>
		<u>\$ 140,179,435</u>	<u>\$ 96,700,000</u>

349 days ended December 31, 2006

<u>Date</u>	<u>Property</u>	<u>Total Purchase Price</u>	<u>Mortgage Financing Amount</u>
October 1, 2006	Temple Gardens Mineral Spa Moose Jaw, Saskatchewan	\$ 26,102,700	\$ 12,470,407
		<u>\$ 26,102,700</u>	<u>\$ 12,470,407</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**3 Acquisitions (continued)**

The assets acquired in the transactions were as follows:

	Year Ended December 31 2007	349 Days Ended December 31 2006
Land	\$ 17,718,000	\$ 697,305
Land improvements	-	65,716
Buildings	115,984,403	19,804,254
Furniture and equipment	5,085,000	1,179,318
Net investment in lease	-	4,985,300
Goodwill	-	1,669,678
Transaction costs	901,624	-
Long term debt	-	(12,470,407)
Future income tax liability	-	(2,956,798)
Working capital, net	490,408	657,927
	<u>\$ 140,179,435</u>	<u>\$ 13,632,293</u>
Consideration:		
Cash	\$ 43,479,435	\$ 12,248,408
Trust units issuance - 276,771 units	-	1,383,885
Mortgage financing	96,700,000	-
	<u>\$ 140,179,435</u>	<u>\$ 13,632,293</u>

**4 Property and equipment**

Year ended December 31, 2007

	Cost	Accumulated Amortization	Net Book Value
Land	\$ 19,002,539	\$ -	\$ 19,002,539
Land improvements	65,716	(5,061)	60,655
Buildings	135,472,872	(2,848,085)	132,624,787
Furniture and equipment	6,495,845	(625,438)	5,870,407
	<u>\$161,036,972</u>	<u>\$ (3,478,584)</u>	<u>\$157,558,388</u>

349 days ended December 31, 2006

	Cost	Accumulated Amortization	Net Book Value
Land	\$ 697,305	\$ -	\$ 697,305
Land improvements	65,716	(1,775)	63,941
Buildings	19,804,254	(142,317)	19,661,937
Furniture and equipment	1,305,106	(118,238)	1,186,868
	<u>\$ 21,872,381</u>	<u>\$ (262,330)</u>	<u>\$ 21,610,051</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**4 Property and equipment (continued)**

Amortization of property and equipment consists of the following:

	Year Ended December 31 2007	349 Days Ended December 31 2006
Land improvements	\$ 3,286	\$ 1,775
Buildings	2,705,768	142,317
Furniture and equipment	507,200	118,238
	<u>\$ 3,216,254</u>	<u>\$ 262,330</u>

**5 Mortgage receivable**

The \$6,000,000 mortgage receivable is due May 31, 2008 and bears interest at 10% per annum with payments of interest only due monthly. The loan is secured by a first charge on the Nova Inn in Edson, Alberta. As additional consideration for advancing these funds, the Trust has received the right of first refusal to acquire the Nova Hotel at the Fort McMurray Airport, Alberta, the Nova Inn in Peace River, Alberta and the Nova Inn in Whitecourt, Alberta.

**6 Net investment in lease**

In 2002, Temple Gardens Mineral Spa Inc. entered into co-ownership of a Moose Jaw casino complex property. The co-ownership completed the development of a 23,400 square foot building and 140 parking stalls. The entire property is subject to a 25 year lease and the tenant must acquire ownership of the property at the end of the lease term for consideration of \$1. Under the terms of the lease, the tenant is responsible for all and every cost arising from or related to the leased premises, including the cost of replacement of the structure and foundation.

Pursuant to the terms of the co-ownership agreement, the co-owners each hold a 50% equity interest in the co-ownership, with all equity contributions, distributions, and net income allocations being made on this same 50% basis.

Future income related to the finance-type lease is recognized in a manner that produces a constant rate of return on the net investment in the lease. The investment in the lease for purposes of income recognition is comprised of net minimum lease payments and unearned finance income. The effective interest rate of the net investment in lease is 7.31%.

Interest income for the year ended December 31, 2007 was \$348,560 (2006 - \$88,096).

The net investment in lease includes the following:

	December 31 2007	December 31 2006
Total minimum lease payments receivable	\$ 8,887,500	\$ 9,337,500
Unearned income	<u>4,019,860</u>	<u>4,368,420</u>
Net investment in lease	4,867,640	4,969,080
Less current portion	<u>(108,859)</u>	<u>(101,440)</u>
	<u>\$ 4,758,781</u>	<u>\$ 4,867,640</u>

The Trust's proportionate share of future minimum lease payments is \$450,000 per annum through October 2011 escalating to \$477,500 until the end of the lease term, October 1, 2026.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**7 Other assets**

	December 31 2007	December 31 2006
Deposits on potential acquisitions	\$ 525,000	\$ 125,000
Cash in escrow	445,000	-
Other	<u>83,003</u>	<u>-</u>
	<u>\$ 1,053,003</u>	<u>\$ 125,000</u>

The cash in escrow was held by a lender of long-term debt as a performance deposit. The performance deposit was returned in full on January 24, 2008.

**8 Long-term debt**

Long-term debt consists of the following:

	December 31 2007	December 31 2006
First mortgage loans secured by specific hotel properties bearing interest at fixed rates between 5.51% and 7.50% (weighted average interest rate - 6.47%) and maturing between February 1, 2008 and October 1, 2012.	\$107,372,615	\$ 14,893,943
10% unsecured loan payable to Saskatchewan Water Corporation, maturing December 1, 2009.	30,110	43,057
Moose Jaw Casino Co-ownership - 7.08% loan payable, maturing September 1, 2027 secured by a specific assignment of the Saskatchewan Gaming Corporation lease.	3,968,084	4,058,485
6% Second mortgage loan - secured by a specific hotel property with payments of interest only, maturing August 31, 2009.	<u>10,000,000</u>	<u>-</u>
	121,370,809	18,995,485
Transaction costs	(1,647,500)	-
Less current portion (net of transaction costs of \$528,586)	<u>(13,254,446)</u>	<u>(5,149,340)</u>
	<u>\$106,468,863</u>	<u>\$ 13,846,145</u>

Transaction costs are incremental costs that are directly attributable to the acquisition of mortgage financing and include both fees and charges, brokerage fees and commissions, legal fees, advisor and similar costs. To December 31, 2006, transaction costs were reflected as a deferred charge. Transaction costs are amortized over the term of the respective mortgages using the effective interest method.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**8 Long term debt (continued)**

Approximate principal repayments are as follows:

12 months ending December 31

2008	\$ 13,783,032
2009	12,593,411
2010	35,163,192
2011	7,744,801
2012	9,972,507
Thereafter	<u>42,113,866</u>
	<u>\$121,370,809</u>

**9 Defeasance assets and defeased liability**

In conjunction with the refinancing of the Merit and Nomad hotels on September 24, 2007, an existing \$3,690,806 (\$3,603,452 net of transaction costs of \$87,354) loan was defeased. The defeased loan is payable in monthly payments of \$56,551, bears interest at 9.41%, was originally amortized over 15 years and is due April 1, 2010. The Trust purchased Government of Canada bonds in the amount of \$4,151,677 and pledged them as security to the debtholder. The bonds mature between May 1, 2008 and December 1, 2009, have a weighted average interest rate of 4.14% and have been placed in escrow. The defeasance assets and the defeased liability will be measured at amortized cost using the effective interest rate method of amortization until April 1, 2010 at which time the debt will be extinguished.

Interest and other income includes \$46,748 (2006 - nil) of interest earned on the defeasance assets. Finance expense includes \$91,173 (2006 - nil) of interest expense on the defeased liability. Finance expense includes \$8,907 (2006 - nil) of amortization of defeasance transaction costs. The unamortized balance of the defeasance transaction costs is \$78,447 (2006 - nil).

**10 Convertible debentures**

The Trust issued \$15,680,000 of Series A debentures by way of private placement on February 15, 2007. The Series A debentures bear interest at 7.5% and mature on March 31, 2012. The debentures are convertible to trust units at any time during their term at a price of \$5.75 at the option of the debenture holder. Transaction costs are amortized over the term of the debenture using the effective interest method.

During the year ended December 31, 2007, \$1,301,300 of Series A debentures were converted to 226,308 trust units.

The following allocation of the convertible debentures to debt and equity components is based on the net present value of future interest and principal payments with an estimated cost of borrowing without conversion option of 12% for Series A debentures:

<u>December 31, 2007</u>	<u>Cost of borrowing</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Series A Convertible debentures	12 %	\$ 12,257,412	\$ 2,406,586	\$ 14,663,998
Transaction costs		<u>(768,237)</u>	<u>-</u>	<u>(768,237)</u>
		<u>\$ 11,489,175</u>	<u>\$ 2,406,586</u>	<u>\$ 13,895,761</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**10 Convertible debentures**

Transaction costs are incremental costs that are directly attributable to issuance of convertible debentures and include both fees and charges, brokerage fees and commissions, legal fees, advisor fees and similar costs. Transaction costs are amortized over the term of the debenture using the effective interest method. The transaction cost amortization for the year ended December 31, 2007 amounted to \$105,944 (2006 - nil).

The accretion of the debt component for the year ended December 31, 2007 of \$310,909 (2006 - nil), which increases the debt component from the initial carrying amount, is included in financing expense on convertible debentures.

**11 Finance expense**

Financing costs are comprised of the following:

	Year Ended December 31 2007	349 Days Ended December 31 2006
Mortgage loan interest	\$ 7,379,791	\$ 291,033
Defeasance mortgage interest	91,173	-
Accretion of the debt component of convertible debentures	310,909	-
Interest on debentures	1,019,434	-
Amortization of transaction costs	461,833	-
Amortization of defeasance transaction costs	8,907	-
	<u>\$ 9,272,047</u>	<u>\$ 291,033</u>

**12 Income taxes**

The expected tax rate applicable to SIFT's is approximately equal to the expected average statutory rate of 31.5%. The effective tax rate of Temple Gardens Mineral Spa Inc. is approximately equal to the Saskatchewan statutory rate of 35.62%. Income tax transactions are comprised of the following:

	Year Ended December 31 2007	349 Days Ended December 31 2006
Current income tax	\$ 446,020	\$ 36,093
Future income tax	56,403	(24,329)
	<u>\$ 502,423</u>	<u>\$ 11,764</u>

	December 31 2007	December 31 2006
Tax liabilities related to difference in tax and book values	\$ 3,079,532	\$ 3,048,231
Tax assets related to deductible issue costs	(90,660)	(115,762)
	<u>\$ 2,988,872</u>	<u>\$ 2,932,469</u>

Deductible temporary differences related to the Trust are expected to reverse by 2011 and therefore are not recorded as a future income tax asset.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**13 Related party transactions**

**Asset management agreement**

The Trust entered into an Asset Management Agreement, for an initial term expiring October 1, 2011, with Shelter Canadian Properties Limited, a Unitholder. The Agreement provides for Shelter to receive an asset management fee of 1.5% of the gross revenues of the Trust and its subsidiaries on a consolidated basis. The Asset Management Agreement requires Shelter to act as Administrator of the Trust by providing accounting, human resource services, office space and equipment and the necessary clerical and secretarial personnel for the administration of the day-to-day activities of the Trust.

The Trust incurred service fees to Shelter Canadian Properties Limited of \$526,715 for the year ended December 31, 2007 and \$44,799 for the 349 days ended December 31, 2006.

**Hotel management**

Temple REIT has retained Atlific Hotels and Resorts to manage all of the hotels for its existing property portfolio. In 2007, the Trust paid a base management fees of \$482,917 (2006 - \$43,750)

**14 Trust units**

On February 15, 2007, the Trust issued and sold 5,800,000 units at a price of \$5.00 per unit for gross proceeds of \$29,000,000 pursuant to the long form prospectus filed December 28, 2006.

On March 14, 2007, subject to the over allotment provisions of the prospectus, the Trust issued and sold an additional 696,000 units for gross proceeds of \$3,480,000.

During the year ended December 31, 2007, 161,164 options were exercised for gross proceeds of \$613,492.

During the year ended December 31, 2007, 65,701 warrants were exercised for gross proceeds of \$328,505.

A summary of the status of the units and changes during the period is as follows:

	Year Ended December 31, 2007		349 Days Ended December 31, 2006	
	Units	Amount	Units	Amount
Outstanding, beginning of period	2,345,837	\$ 8,620,218	-	\$ -
Units issued in exchange for share of HPVC Inc.	-	-	766,666	2,000,000
Units issued by private placement	6,496,000	32,480,000	1,302,400	6,512,000
Units issued in exchange for shares of Temple Gardens Mineral Spa Inc.	-	-	276,771	1,383,885
Units issued on exercise of options	161,164	613,492	-	-
Value associated with options exercised	-	35,642	-	-
Units issued on exercise of warrants	65,701	328,505	-	-
Value associated with warrants exercised	-	32,119	-	-
Units issued on exercise of Series A convertible debentures	226,308	1,110,110	-	-
Equity component of debentures converted	-	217,801	-	-
Unit issue costs	-	(2,393,000)	-	(1,275,667)
Outstanding, end of period	<u>9,295,010</u>	<u>\$41,044,887</u>	<u>2,345,837</u>	<u>\$ 8,620,218</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**15 Unit options and warrants**

***Option plan***

The Trust may grant options to trustees, senior officers, employees of the Trust or of a subsidiary of the Trust, management company employees of the Trust or any subsidiary of the Trust investor relations' consultants and technical consultants to the Trust.

The maximum number of units reserved for issuance under all securities compensation arrangements is limited to 10% of the total number of issued and outstanding units. The maximum number of units that may be issued to a participant shall not exceed 5% of the total number of issued and outstanding units provided that person is other than a consultant or person employed in investor relations activities and 2% of the total number of issued and outstanding units for all consultants and persons employed in investor relations activities.

The Trustees set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the discounted market price of the shares. The discounted market price is the market price of the shares, less a discount, which shall not exceed 25% if the market price is \$0.50 or less, 20% if the market price is from \$0.51 to \$2.00, and 15% if the market price is above \$2.00 as determined under the policies of the Exchange.

The options have a maximum term of five years from the date of grant unless otherwise specifically provided by the Board of Trustees and authorized by the Exchange. For a participant employed in investor relations activities, no option shall be exercisable for a period exceeding 12 months from the date of grant, with no more than 1/4 of the options vesting in any three-month period.

***Unit options***

	Year Ended December 31, 2007		349 Days Ended December 31, 2006	
	Unit options	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	237,997	\$ 4.01	-	\$ -
Unit options granted during period	98,000	5.00	237,997	4.01
Unit options exercised during period	(161,164)	3.81	-	-
Unit options outstanding and vested, end of period	<u>174,833</u>	<u>\$ 4.75</u>	<u>237,997</u>	<u>\$ 4.01</u>

The 566,666 agent options of HPVC Inc. were exchanged for options of the Trust on the basis of one option of the Trust for every ten options of HPVC Inc. The 56,666 trust options have an exercise price of \$3.00. The options expire on February 22, 2008. During the year ended December 31, 2007, 42,499 agent options were exercised.

The 613,334 directors and officers options of HPVC Inc. were exchanged for options of the Trust on the basis of one option of the Trust for every ten options of HPVC Inc. The 61,331 trust options have an exercise price \$3.00. The options expire on February 22, 2011. During the year ended December 31, 2007, 53,665 directors and officers options were exercised.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**15 Unit options and warrants (continued)**

On completion of the qualifying transaction October 1, 2006, the Trustees of the Trust were granted options to purchase 120,000 units at \$5.00 per unit. The options will expire five years from the date the options are granted. The fair value of \$65,800 associated with the options issued was calculated using the Black-Scholes model for option valuation and charged to the deficit as a cost of issuing units, assuming a weighted average volatility of 35% on the underlying shares, the term to expiry (generally five years), a dividend yield rate of 11.20% and the weighted average risk free interest rate (typically the Canada bond rate at the date of grant). During the year ended December 31, 2007, 65,000 Trustee options were exercised.

On May 1, 2007, the Trust granted options to purchase 98,000 units at \$5.00 per unit. The options were granted to four independent trustees, the Chief Financial Officer and to a management employee of Shelter Canadian Properties who is engaged in TREIT related functions. The options will expire five years from the date they were granted. The fair value of \$43,306 associated with the options issued, included in trust expense, was calculated using the Black-Scholes model for option valuation and charged to unit-based compensation, assuming a weighted average volatility of 31% on the underlying units, a dividend yield rate of 12.30% and the weighted average risk free interest rate (typically the Canada bond rate at the date of grant).

**Warrants**

	Year Ended December 31, 2007		349 Days Ended December 31, 2006	
	Unit Warrants	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	78,144	\$ 5.00	-	\$ -
Unit warrants granted during period	-	-	78,144	5.00
Unit warrants exercised during period	(65,701)	5.00	-	-
Unit warrants expired during period	(12,443)	5.00	-	-
Unit warrants outstanding and vested, end of period	<u>-</u>	<u>\$ -</u>	<u>78,144</u>	<u>\$ 5.00</u>

On completion of the qualifying transaction the Trustees of the Trust granted warrants to the Agents to purchase 78,144 units at \$5.00 per unit. The warrants expired September 29, 2007, one year from the date the warrants were granted. The fair value associated with the warrants issued was calculated using the Black-Scholes model for warrant valuation and charged to the deficit as a cost of issuing units, assuming a weighted average volatility of 35% of the underlying shares, the term to expiry (one year), a dividend yield rate of 11.20% and the weighted average risk free interest rate (typically the Canada bond rate at the date of grant). During the year ended December 31, 2007, 65,701 warrants were exercised.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**16 Investment in co-ownership**

During the 2002 fiscal year, Temple Gardens Mineral Spa Inc. entered into co-ownership of a Moose Jaw casino complex property. The co-ownership completed the development of a 23,400 square foot building and 140 parking stalls. The entire property is subject to a 25 year lease and the tenant must acquire ownership of the property at the end of the lease term for consideration of \$1. Under the terms of the lease, the tenant is responsible for all and every cost arising from or related to the leased premises, including the cost of replacement of the structure and foundation.

Pursuant to the terms of the co-ownership agreement, the co-owners each hold a 50% equity interest in the co-ownership, with all equity contributions, distributions, and net income allocations being made on this same 50% basis.

Summarized financial information of the Trust's interest in a jointly controlled entity, which has been proportionately consolidated, is as follows:

	Year ended December 31 2007	349 Days Ended December 31 2006
Assets	<u>\$ 4,968,474</u>	<u>\$ 5,009,099</u>
Liabilities	<u>\$ 3,993,408</u>	<u>\$ 4,093,197</u>
Net income	<u>\$ 87,716</u>	<u>\$ 16,823</u>
Cash flow from operations	<u>\$ (11,078)</u>	<u>\$ (14,225)</u>
Cash flow from investing	<u>\$ 101,440</u>	<u>\$ 16,220</u>
Cash flow from financing	<u>\$ (90,401)</u>	<u>\$ (21,081)</u>

**17 Per unit calculations**

Basic per unit information is calculated based on the weighted average number of units outstanding for the period. Diluted per unit information is calculated based on the weighted average diluted number of units for the period, considering the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential conversion of outstanding convertible debentures to the extent that the debentures are dilutive. The Series A convertible debentures are anti-dilutive.

Income per unit calculations are based on the following:

	Year Ended December 31 2007	349 Days Ended December 31 2006
Income	<u>\$ 3,267,422</u>	<u>\$ 109,377</u>
Diluted Income	<u>\$ 3,267,422</u>	<u>\$ 109,377</u>
Weighted average number of units	8,028,513	1,124,500
Dilutive options	<u>52,909</u>	<u>13,536</u>
Weighted average number of diluted units	<u>8,081,422</u>	<u>1,138,036</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**18 Distribution of income**

Distributions to unitholders are computed based on distributable income as defined by the Declaration of Trust.

Distributable income is a measure of cash flow that is not defined under Canadian generally accepted accounting principles, and accordingly, may not be comparable to similar measures used by other issuers. Distributable income per unit has been calculated on a basis consistent with that prescribed by Canadian generally accepted accounting principles for calculating earnings per unit.

Distributable income is defined as net income in accordance with Canadian generally accepted accounting principles, subject to certain adjustments as set out in the Declaration of Trust, including adding back amortization, future income taxes (recovery) expense, deducting the amount calculated, at 3.5% of revenues, for the reserve for the replacement of furniture, fixtures and equipment and capital improvements, the accretion on debt component of convertible debentures, unit based compensation, amortization, and making any other adjustments determined by the Trustees in their discretion. As outlined in the declaration of Trust, the Trust is required to distribute monthly to unitholders, the greater of, not less than one-twelfth of eighty-five percent (85%) of distributable income or any amount of net income and net realized capital gains as is necessary to ensure that the Trust will not be subject to Part I tax on its net income and net capital gains of the Trust for the calendar year.

	Year Ended December 31 2007	349 Days Ended December 31 2006
Net income	\$ 3,267,422	\$ 109,377
Add (deduct):		
Accretion on debt component of convertible debentures	310,909	-
Unit-based compensation	43,306	-
Amortization	3,216,254	264,298
Amortization of transaction costs	470,740	-
Future income taxes (recovery) expense	56,403	(24,329)
Reserve for replacement of furniture, fixtures and equipment and capital improvements	(1,204,230)	-
Distributable income	<u>\$ 6,160,804</u>	<u>\$ 349,346</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### DECEMBER 31, 2007 AND 2006

#### 19 *Financial instruments and risk management*

##### **Fair values**

Financial instruments include cash, accounts receivable, mortgage receivable, cash in escrow, defeasance assets, accounts payable, long-term debt, defeased liability, and the debt component of convertible debentures payable. Except for long-term debt and the debt component of convertible debentures, the carrying values of these financial instruments approximate fair value due to the short term nature of financial instruments. The fair value of the long-term debt and debt component of convertible debentures is impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments.

The fair value of long-term debt has been estimated based on the current market rates for debt with similar terms and conditions. The estimated fair value of long-term debt for the period ended December 31, 2007 is \$119,926,760 (December 31, 2006 - \$19,967,392).

The fair value of the debt components of convertible debentures payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of the debt component of convertible debentures payable has been estimated based on the current market rates for debentures with similar terms and conditions. The carrying value of the debt component of convertible debentures payable for the period ended December 31, 2007 approximates fair value.

The fair value of the defeasance assets and the defeased liability is nil on a net basis as cash flows to the Trust will be nil.

##### **Risk management**

In the normal course of business, the Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its customers. Management's involvement in operations helps identify risks and variations from expectations. The Trust does not manage risk through the use of hedging transactions. As a part of the overall operation of the Company, management takes steps to avoid undue concentrations of risk. The Trust manages the risks, as follows:

- Fluctuations in interest rate creates a cash flow risk which is minimized by obtaining long term mortgages. There is a risk that interest rates will fluctuate subsequent to the date the Trust commits to a fixed interest rate with the lender. Obtaining long-term mortgages with fixed interest rates minimizes cash flow risk. The Declaration of Trust restricts mortgage loans on income properties from being greater than 75% of the appraised value of the income properties. As at December 31, 2007, the total of mortgage loans payable is 60.2% (2006 - 70.5%) of the total estimated current value of income properties. The Trust may enter into interest rate swap contracts to modify the interest rate of outstanding debt without an exchange of the underlying principal amount.
- Credit risk arises from the possibility that customers may experience financial difficulty and may not be able to fulfill their commitments. The risk of credit loss is mitigated by policies that require that the financial viability of customers are investigated in order to help ensure that they are comprised of credit worthy covenants. The risk of credit loss is also mitigated by limiting the exposure to any one customer. An allowance for doubtful accounts is established based upon factors surrounding credit risk of specific tenants, historical trends and other information.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**20**      ***Commitments***

The Trust is committed under the terms of operating lease agreements for occupancy and equipment with the following annual lease payments over the next five years and thereafter.

2008	530,291
2009	493,407
2010	489,530
2011	489,530
2012	430,942

The Trust has entered into commitments to fix natural gas rates at \$8.85 per gigajoule until October 2012 to fix energy costs. The commitments are in accordance with the Trust's expected usage requirements.

**21**      ***Subsequent events***

**Unit options**

On January 29, 2008, the Trust issued an aggregate total of 400,000 incentive options to purchase TREIT units at \$6.19 per unit. The options were issued to the Trustees, the Chief Financial Officer and to management employees of Shelter Canadian Properties Limited who are engaged in TREIT related functions. The options were issued pursuant to the TREIT option plan.

Subsequent to December 31, 2007, 23,167 unit options were exercised for gross proceeds of \$87,501.

**Acquisitions**

On January 31, 2008, the Trust acquired the assets of Advantage West Inn and Suites in Fort McMurray, Alberta for \$19,400,000. The purchase price was funded by way of first mortgage loan in the amount of \$11,640,000, a second mortgage loan in the amount of \$4,000,000 secured by a second charge on the hotels in Fort McMurray, with the balance paid in cash. The first mortgage bears interest at 6.285% per annum and is amortized over 15 years on a blended basis. The second mortgage loan was reduced to \$200,000 on April 10, 2008.

**Convertible debentures**

On April 8, 2008, the Trust issued and sold 300,000 Series B convertible redeemable debentures for gross proceeds of \$30,000,000 pursuant to a short form prospectus filed March 25, 2008. The debentures have a five year term bearing interest at 8.5% and are convertible at the option of the holder at \$7.50 per unit.

Subsequent to December 31, 2007 \$8,809,700 of Series A convertible redeemable debentures were converted into 1,528,626 units.

**Mortgage renewal**

Effective February 1, 2008, the maturing first mortgage loan secured by Temple Gardens Mineral Spa in the amount of \$3,338,115 was renewed for a five year term maturing February 1, 2013. The loan bears interest at 5.06% and is amortized over 20 years.

## UNITHOLDER INFORMATION

### Trustees and Officers

The investment policies and operations of Temple REIT are subject to the control of the trustees, pursuant to the terms of a Declaration of Trust. The Declaration of Trust provides for a minimum of three trustees and a maximum of ten trustees and requires that the majority of trustees be independent trustees. The Declaration of Trust provides Shelter Canadian Properties Limited with the right to appoint one trustee.

The current trustees of Temple REIT are Ms. Rosanne Hill Blaisdell, Mr. Gary Buckley, Mr. David Drybrough, Mr. Rod Marlin and Mr. Arni Thorsteinson. Ms. Hill Blaisdell is the Vice President of Leasing for Harvard Developments Inc. Mr. Buckley is the owner of the Elkhorn Resort and Conference Centre and the owner/operator of various other real estate properties. Mr. Drybrough was Vice President of Gendis Inc. prior to his retirement in January 2004. Mr. Marlin is the President, CEO and a Trustee of Eveready Income Fund. Mr. Thorsteinson is the President and principal owner of Shelter Canadian Properties Limited and serves as Chief Executive Officer of Temple REIT. Mr. Thorsteinson is the appointee of Shelter Canadian Properties Limited.

The Chief Financial Officer of Temple REIT is Mr. John Liddle, CGA, Manager, Financial Reporting - Multi-Family Rental, Condominium & Retirement Properties for Shelter Canadian Properties Limited.

### Asset Manager of the Trust

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of the Asset Management Agreement, to provide asset management services, to administer the daily affairs of Temple REIT and to perform the accounting and reporting functions of Temple REIT.

Shelter Canadian Properties Limited is one of Canada's leading privately owned real estate development and property management companies.

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### Unit Listing

TSX Venture Exchange  
Unit trading symbol: TR.UN  
Debenture trading symbol: TR.DB.A  
TR.DB.B

### Unitholder and Investor Contact

Mr. Gino Romagnoli, CGA  
Manager, Investor Services  
Shelter Canadian Properties Limited  
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Email: [gromagnoli@TREIT.ca](mailto:gromagnoli@TREIT.ca)

### Transfer Agent and Registrar

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